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THE

WORKS,

POLITICAL, METAPHISICAL, AND CHRONOLOGICAL,

OF THE LATE

Sir JAMES STEUART of Coltness, Bart.

VOL. III.

Strahan and Preston,
New-Street Square.

THE

WORKS,

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SIR JAMES STEUART Denham *OF COLTNESS, BART.*

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INTO THE

PRINCIPLES OF POLITICAL ŒCONOMY.

BOOK III.

OF MONEY AND COIN.

PART II.

THE PRINCIPLES OF MONEY APPLIED TO TRADE.

CHAP. I.

Conſequences of impoſing the Price of Coinage, and the Duty of Seignorage upon the Coin of a Nation, ſo far as they affect the Price of Bullion, and that of all other Commodities.

THE political œconomy of modern ſtates is ſo involved with the intereſts of commerce, that it is neceſſary at every ſtep we make, to keep in our eye the combinations which ariſe from this quarter.

Whatever tends to ſimplify an intricate theory greatly aſſiſts the mind: dividing this book into two parts, ſeems, as it were, dividing the burden which the memory has to carry: the principles already deduced may there ripen by a ſhort pauſe, and the

BOOK III.

analogy of the matter which is to follow in the ſecond part, where new combinations will be taken in, will recall them to the mind and fix them in the memory.

Intricacy of this ſubject.

I am now to examine one of the niceſt principles in the whole doctrine of money, to wit, the effects of impoſing the price of coinage, and the duty of ſeignorage upon coin.

When this queſtion is conſidered in relation to all the combinations which ariſe, 1. from the nature of coin conſidered as a metal, and at the ſame time as a money of accompt; 2. from the influence this duty has upon the price of commodities; and 3. from the impoſition itſelf, as it affects *directly*, the nation which lays it on, and all other nations trading with it *occaſionally*: when all theſe combinations are taken together, I ſay nothing will be found more difficult than to reduce this queſtion to a diſtinct theory.

What I have to ſay upon it has found a place in this inquiry, rather with a view to ſuggeſt ideas to men of a better capacity, than from the hopes of ſatisfying my readers in every particular.

Recapitulation of ſome principles.

I have ſaid, that gold and ſilver are commodities merely like every other thing. I have ſhewn the utter impoſſibility of their being a ſcale, or an invariable meaſure of value. I have obſerved that their being made into coin *(among trading nations)* has not the effect of rendering them leſs a commodity than they were before, except ſo far, as by this operation every piece, inſtead of being valued by its own weight, comes to be valued according to

the mean proportion of all the pieces which compoſe the currency: and I have ſhewn how the operations of trade are capable to ſift out and eſtabliſh this mean proportion, in ſpite of very great irregularities. Theſe are the principles laid down in the firſt part, which we muſt keep in our eye while we examine this queſtion.

Since gold and ſilver, then, are commodities like every other thing, the invariable ſcale of value muſt meaſure *them* as well as every other commodity, and money of accompt muſt be conſidered in no other light, than as a ſcale for expreſſing the proportional value of grains of metals, yards of ſtuffs, pounds of wares, buſhels of grain, or gallons of liquors. In this view, when we mention a hundred pounds, it is juſt as proper to conſider this value relatively to the meaſure of any merchandize, as to the metallic meaſure of the coin. Every merchandize, when conſidered by itſelf, ſhould be meaſured by its own meaſure, gold by grains, liquors by gallons, wheat by buſhels, &c. The denominations of pounds, ſhillings, and pence, are neceſſary only for reducing all other ſorts of weights and meaſures to an equation of value. This is what is underſtood by the univerſal ſcale of proportional value. I think this idea is ſufficiently clear.

The firſt introduction of coinage muſt make prices fall.

Let us now ſuppoſe a country where the invention of coin is not known, and where a yard of cloth of a certain quality, is commonly ſold for 100 grains of either ſilver or gold, no matter which. The ſtate falls upon the invention of coining, the convenience of which every body underſtands. This coinage, I ſuppoſe, to coſt 2 *per cent.* Coin is introduced,

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troduced, and commodities are ordered to be bought with it. I aſk, what effect ought this revolution to produce upon the price of the cloth, according to ſtrict theory, and without taking in any other combination of circumſtances? I anſwer, that the cloth ought in reaſon to fall 2 *per cent.* that is, that the price of a yard ought to be a coin of 98 grains. Here is the reaſon: He who formerly had the 100 grains, had the value of the yard of cloth, and could change the one for the other when he would. Now he has the 100 grains, but he muſt give two grains to have it coined, before he can buy; becauſe after this invention people will not truſt to the weighing of others, nor to the purity of the metals; but they will believe, upon the authority of the ſtamp, that in every piece a certain number of grains of the fine metal is contained. He, therefore, who has a coin of 98 grains, comes to the merchant, and offers him his coin for his yard of cloth; the merchant demands a coin of 100 grains; ſays the other, theſe 98 grains which I give you in coin, coſt me two grains to have their weight and fineneſs aſcertained; and if you refuſe to repay me for what I have paid for this manufacture which I offer you for your cloth, I may with equal reaſon refuſe to pay you for what you paid for weaving your wool into cloth. Now ſince I, in buying your cloth, muſt pay the weaver, ſo you, in buying my piece, muſt pay the mint. The merchant, convinced by this reaſoning, takes the piece, and as it circulates from hand to hand, every commodity given in exchange for it, muſt fall 2 *per cent.* relatively to the grains of metal it was worth before.

Farther,

CHAP. I.

Conſequences of the excluſive privilege of coinage.

Farther, if by the laws and cuſtoms of a country, coin be abſolutely neceſſary for buying and ſelling, this coin muſt be had; and if there be but one perſon who can make it, the price he thinks fit to demand for it can be the only meaſure of the value of fabrication. The grains of the metals, therefore, in the coin, muſt riſe in their proportional value to yards of cloth, and to gallons of liquor, in proportion to the coſt of coinage, as the pounds of wool and ſilk muſt riſe in their value in proportion to their manufacture.

From this it follows, that ſince the value of coin muſt riſe in proportion to every commodity, it muſt alſo riſe with reſpect to the metal it is made of, juſt as wool manufactured riſes with reſpect to wool which is not manufactured.

Now let us ſuppoſe that a Prince finding that he has the excluſive privilege of making coin, ſhall raiſe his price of coinage to 8 *per cent.* what will the conſequence be?

The firſt conſequence of this will be to deſtroy, or at leaſt to perplex the ideas of his ſubjects with regard to coin, and to make them believe, that it is the ſtamp, and not the metal which conſtitutes the value of it.

The next conſequence will be, to reduce the price of the yard of cloth, which was worth 100 grains of metal before the invention of coinage, from 98, where it ſtood at firſt, to 92. Now let us ſuppoſe that this country, which we ſhall call (F), is in the neighbourhood of another which we ſhall call (E), where there is both cloth of the ſame quality, and coin of the ſame weight and fine-

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proportion of the grains of the metal it coſts to acquire the coin which is the price of the manufacture.

We have ſeen how upon the inſtitution of coinage and ſeignorage, the yard of cloth fell to 92 grains; becauſe then it was impoſſible to procure coin at a leſs price than 8 *per cent.* but when the wrong balance of trade had ſunk the coin to the value of bullion, then the 92 grains of the *coin* being to be purchaſed with 92 grains of *bullion*, it was reaſonable that the cloth ſhould riſe to its former price; becauſe then no body could ſay that the coin of 92 grains was worth 100 of bullion.

But this theory does not hold in practice, nor can it poſſibly hold, as long as the greateſt part of a people are ignorant of, and even do not feel the revolutions we have been here deſcribing.

How traders obſtruct the operation of theſe principles while the balance of trade continues fluctuating,

The price of bullion is entirely regulated by merchants, who have the whole correſpondence in their hands. It riſes and falls in countries where coinage is impoſed, in proportion to the ſtate of the balance of trade at the time. The ſmalleſt riſe or fall in the demand for bullion, is immediately marked by the price of it, and this ought (by the principles we have been laying down) to regulate the riſe and fall of every commodity. But this is by no means the caſe. Commodities riſe and fall after a certain time only; and of this interval merchants will conſtantly profit. Does the price of bullion riſe, they immediately ſell to ſtrangers as if all prices were immediately riſen; but with regard to manufacturers, they hide the revolution with great care, and preſerve prices from riſing, until

until the competition among themſelves diſcovers the ſecret. Does the price of bullion fall, they do all they can to keep up the prices of every commodity which they ſell to ſtrangers, until the competition among themſelves obliges them to bring them down; and with regard to manufacturers, they are all in one intereſt to reduce the prices in proportion to the fall of the bullion, which works its effects by ſlow degrees.

and how an overturned balance of trade attaches prices to the denominations of coin.

Theſe are the operations of traders, in times when there is a *fluctuation* in the balance of the trade of a country; that is to ſay, in times when the balance is ſometimes favourable and ſometimes not.

At ſuch times the true influence which trade ought to have upon prices is never exactly known, but to the merchants; who ſeldom fail to profit of their knowledge, inſtead of communicating it for the benefit of the ſociety. But this is not the caſe when the balance of trade is quite *overturned*, that is, when it remains for a long time againſt a nation, without any favourable vibration; as we ſhall preſently explain.

We have ſeen how, by the changes in the balance of trade, the price of bullion is made ſuſceptible of a variation in its value, equal to the price of coinage; and we have pointed out the principle which confines the variation within theſe limits; to wit, the value of the coin as a metal, prevents bullion from riſing higher than its full denomination as money; and the mint price, preſerves it from falling lower than what the mint is willing to give for it.

We

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We have obſerved how merchants may profit of ſuch variations, and how they obſtruct the operation of principles upon the riſe and fall of prices. We now proceed to another chain of cauſes, which tend greatly to deſtroy the due proportion of value between coin and merchandize. This with juſtice may be put alſo to the account of the imperfection of the metals in performing the functions of money of account.

Univerſal experience ſhews that the prices of merchandize are ſo attached to the denominations of coin, that they do not fluctuate as principles point out, any more than projectiles deſcribe parabolas, or that machines operate the effects, which by calculation they ought to do. The reſiſtance of the air in one caſe, the friction of the parts in the other, tend to render theory incorrect. Juſt ſo here; our theory repreſents prices as riſing and ſinking in the moſt harmonious proportion together with the metals; but in practice it is not ſo. They have their frictions and political reſiſtances, which render the theory deluſive only when every circumſtance is not combined. A good gunner muſt calculate the reſiſtance of the air upon his bomb, or he never will hit the mark.

We have already ſhewn how the intereſts of mercantile people tend to obſtruct the due fluctuation of prices; we muſt now take in other combinations.

Although this be not a proper place to reſume a diſcuſſion of the particular theory of the riſe and fall of prices, yet ſtill ſomething muſt be ſaid upon this ſubject, in order to bring the queſtion we are upon to ſome ſort of ſolution.

Firſt,

CHAP. I.

First, then, it will be agreed that it is far easier to make a price rise, than to make it fall. I believe I might take this for granted, without giving the reason for it. At all times, a price which has long stood low, may be made to rise; but it is next to impossible to make a price which has long stood high, to fall in the same manner. Here is the reason: Let me suppose the yard of an extensive manufacture which occupies a number of hands, to be worth 100 grains. The workmen here live nearly at the same expence, and I suppose them to live upon the profits of their work, when they sell at 100 grains a yard. The price rises to 120; here is an additional profit of 20 grains. If a sudden turn should diminish the demand which raised the price of the merchandize, it will fall to the old rate without much difficulty; the workmen will consider the 20 grains addition as a precarious profit upon which they cannot reckon: but let the price of 120 grains remain uniformly for some years, the 20 grains will cease to be precarious profits; they will consolidate, as we have called it, into the value of the merchandize; because the workmen, by having long enjoyed them, will have bettered their way of living; and as they are many, and live uniformly, any thing which obliges them to retrench a part of their habitual expence, is supposed to deprive them of necessaries.

How profits consolidate into prime cost.

This is sufficient, as a hint, upon a subject which branches out into an infinity of different relations, not at all to the present purpose. But it is very much to the purpose to shew how the imposition of coinage must, on many occasions, have the effect of attaching

and are preferved upon articles of home-consumption.

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attaching the price of commodities to the denominations of the coin, inſtead of preſerving them attached to the grains of the metals which compoſe them, as in theory they ought to be.

When wars, *e. g.* occaſion a wrong balance to continue for many years againſt a nation, this keeps coin at par with bullion for a long time. Is it not very natural, that during this time manufacturers ſhould eſtimate their work according to the coin, and not as formerly, according to the bullion? The conſequence of this is, that when peace returns, and when coin begins to riſe above the price of bullion, the manufacturers ſtick to the denominations of the coin, inſtead of deſcending in value (as they ought to do by theory) along with the bullion. What is the conſequence of this? It is that the prices of manufactures *for home-conſumption*, and of *commodities peculiar to the country*, ſtand their ground; that is, prices do not deſcend, and cannot be brought down by merchants.

but are torn away by foreign competition for articles of exportation.

But as to manufactures for exportation, which are not peculiar, but which are produced by different countries, the prices of theſe are violently pulled down by the force of foreign competition; and the workmen are obliged to diminiſh them. This hurts them effectually, not becauſe of the diminution of the prices; becauſe, properly ſpeaking, this diminution is relative only to the denominations of the coin; their gains will purchaſe as many grains of bullion in the market as before, but not ſo much coin, and conſequently not ſo much of any commodity which, by the principles juſt laid down, have attached themſelves to the denominations of

of the coin, and have riſen in their price along with it.

From this ſhort expoſition of a very intricate matter, we may conclude, that the impoſition of coinage does not raiſe the price of ſuch merchandize as is in common to ſeveral nations, and which trade demands from each, without any competition with the natives; that is to ſay, the prices of them ſtand as formerly with reſpect to ſtrangers; becauſe although the prices be made to ſink at home, with reſpect to the denominations of the coin, yet ſtrangers, being obliged to pay for them in thoſe denominations, are alſo obliged to pay an advanced price for the coin, in order to procure them. This is the price of coinage. This, I confeſs, is a little ſubtil, but I believe the reaſoning to be juſt.

On the other hand, when trade extends itſelf to other commodities, to thoſe, I mean, which it buys in competition with the natives (and which are made to riſe and fall from the viciſſitudes of inland demand), or to ſuch commodities as are peculiar to the country; in theſe caſes, I have little doubt but the prices, once raiſed and continued high for ſome time, attach themſelves to the denominations of the coin, and riſe along with it; that is to ſay, coinage is included over and above the price which the merchandize would have borne, had no coinage been impoſed.

How this hurts the induſtrious, and how the ſtate may indemnify them.

The concluſion I draw from this reaſoning, is, that the impoſition of coinage has not, in fact, the effect of reducing the prices of commodities to fewer grains of bullion than before, excepting thoſe of ſuch commodities as are ſold in competition with other

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other nations; and even then it may be ſaid, that it is not the impoſition of the coinage, but the competition with ſtrangers, which reduces commodities to the minimum of their value, as well as the profits of thoſe who work in them, to the minimum of a phyſical neceſſary. This laſt circumſtance ſhews why thoſe who work for foreign exportation, are the pooreſt claſs of all the induſtrious of a ſtate, although the moſt uſeful to it, at the ſame time. I believe experience ſupports the truth of theſe concluſions. I ſhall here by the bye obſerve, that as the ſtate is made to profit by the diminution of the gains of this moſt uſeful claſs; as ſhe receives the coinage which ſtrangers pay, and which is really deducted from the manufacturers who ſupport exportation, ſhe ought to indemnify this claſs (as may be done in a thouſand ways, by premiums, for example, upon exportation) out of the profits ariſing upon coinage, inſtead of giving coinage free, to the evident loſs of the nation, and benefit to ſtrangers, as we ſhall now endeavour to prove.

CHAP. II.

Concerning the Influence which the impoſing of the Price of Coinage, and the Duty of Seignorage in the Engliſh Mint, will have upon the Courſe of Exchange, and Trade of Great Britain.

Theory of prices upon articles of exportation.

IN the preceding chapter we have examined a very nice theory, in which ſuch a number of circumſtances depending upon facts have been combined,

bined, that little ſtreſs is to be laid upon ſeveral concluſions which have been drawn from it, unleſs they be approved by experience.

Let the beſt workman in London make a watch, he cannot depend upon its being a good one, until it be tried; and when that is done, the application of his theory will enable him to diſcover all the defects and irregularities in the movement. It is juſt ſo in political matters. The force of theory is not ſufficient to form a good plan; but it is uſeful for diſcovering many faults which could not have been foreſeen. The more extenſive, therefore, any theory be made, the more it will be uſeful for theſe purpoſes. It is proper however to obſerve, that the more complicated any principle of it be, the leſs dependance can be had upon its operation when applied to practice.

It is impoſſible to lay down a diſtinct theory for the riſe and fall of the prices of all ſorts of commodities in a nation ſuch as Great Britain. All that can be ſaid with certainty, is, that competition on the part of the conſumers will make them riſe, and that competition on the part of the furniſhers will make them fall. Now the competition among the furniſhers may be reduced to theory; becauſe it is fixed within determinate limits, which it cannot exceed, and is influenced by this principle, viz. that when profits are reduced to the minimum (that is to the exact phyſical-neceſſary of the workman) all competition among furniſhers muſt ceaſe.

But the competition among conſumers is fixed within no determinate limits: ſome demand to ſatisfy phyſical wants; others thoſe of vanity and caprice.

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caprice. Moſt inland demand for conſumption is of this kind, and conſequently it is impoſſible to foreſee what effect the impoſition of coinage will have upon the prices of many commodities. Perhaps they will fluctuate with bullion; perhaps they will adhere to the denominations of the coin: experience alone can bring this matter to light.

But with regard to ſuch commodities as are the object of foreign trade, prices are influenced by certain principles on both ſides. Merchants, not the conſumers themſelves, are the demanders here. Neither vanity or caprice, but profit alone, regulates the price they offer. Thus it is, that as all competition among furniſhers muſt ceaſe upon the reduction of profits to the minimum, ſo all demand from merchants (who in this caſe repreſent the conſumers) muſt ceaſe, ſo ſoon as prices riſe above what they can afford to give, conſiſtent with their minimum of profit upon the ſale of what they buy.

The degree, therefore, of foreign competition will alone regulate the prices of ſeveral exportable commodities, and of conſequence the profits of ſuch as are employed in them, as has been ſaid. This premiſed, we come to examine the influence which the impoſition of coinage will have upon the courſe of exchange and trade of a nation.

How the courſe of exchange is regulated.

In ſpeaking of exchange, as far as it influences the deciſion of this queſtion, we muſt throw out all extraneous circumſtances, and endeavour to reduce it to the plaineſt theory.

When one nation pays to another the price of what they buy, the interpoſition of bullion is unavoidable;

avoidable; and the whole operation conſiſts in comparing the value of coin with the value of bullion in the one and in the other nation.

Price of exchange, what.

Suppoſe France to owe to England 1000 pounds ſterling; what regulates exchange here, is the price of bullion in Paris and in London. The French merchant inquires firſt, what is the quantity of bullion in London, which at the time is equal to the ſum he wants to pay? and next, what this quantity of bullion will coſt him to procure in the Paris market? Upon this the par of exchange ought to be regulated. Whatever is given more than this quantity is the price of tranſportation, when the balance of trade is againſt France. Whatever is given leſs, may be conſidered as the price of tranſportation which the Engliſh would be obliged to pay were the balance againſt England, if the French merchant, by ſending his paper to London, did not ſave England the trouble, by diminiſhing ſo far the balance againſt it; and of this France profits, until the balance turn to the other ſide. Now let us leave the price of tranſportation out of the queſtion, and conſider only how the impoſition of coinage, by affecting the price of bullion, may influence the courſe of exchange.

Where coinage is free the price of bullion ought to be invariable.

We have ſeen how the impoſition of coinage renders the price of bullion ſuſceptible of a variation in its price, equal to the amount of the impoſition. Wherever, therefore, coinage coſts nothing, there bullion and coin muſt always be of the ſame value. This would be the caſe in England, without doubt, were the metals in the coin exactly proportioned, were all the coin of a legal weight,

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and were neither melting down, or exporting made penal.

and fluctuating where coinage is impoſed.

The bullion, therefore, in France may vary 8 *per cent.* in its price, according to the balance of trade; the bullion in England muſt be ſuppoſed invariable, let the balance ſtand as it will.

Bullion in England dearer than in France,

According to this repreſentation of the matter, may we not ſay that bullion in England is always at the higheſt price it ever can be in France, ſince it is at the price of the coin? Is not this the condition of France, when the balance of her trade is the moſt unfavourable it poſſibly can be?

becauſe the price of it is kept up by the mint,

If therefore England, *herſelf*, do contribute to keep the price of her bullion higher than it is in France, is not this an advantage to France, ſince France can buy the bullion with which ſhe pays her Engliſh debts cheap in her own market, and can ſell it dear in that of her creditor? Is there not a profit in buying an ox cheap in the country, and ſelling him dear in Smithfield market?

and is allowed to fall in France 8 per cent. below the coin.

Now why is bullion ſometimes cheaper in France than in England? I anſwer, that in France it is allowed to fall 8 *per cent.* below the coin, and the King takes it at times only when nobody can get a better price for it: and that in England the King gives always coin for bullion, and by this keeps the price of it from ever falling lower. Let the Engliſh mint pay the pound troy ſtandard ſilver at the rate of thirteen ounces of coin, the price of bullion in England will always be $\frac{1}{13}$ dearer than the coin.

When bullion in France falls to 8 *per cent.* below the coin, it is carried to the mint: when it is worth more, nobody carries any to be coined.

Nobody in France (except upon a general coinage) is forced to ſell their bullion at this price. Is it not, therefore, a very wiſe regulation, to permit the operations of trade to reduce, as low as poſſible, the value of that commodity with which all they owe is paid, and this more eſpecially, as the fall of its price is a proof of the proſperity of their trade.

The wiſe regulation.

If, therefore, it be ſuppoſed, that the effect of having a material money for a ſcale of value, is, that the denominations in the coin, and not the grains of the bullion, muſt meaſure the value of commodities *for home-conſumption;* then it follows, that the variations in the price of bullion, ſhould not affect the price of commodities.

This is a conſequence, however, which I do not pretend to determine, and I apprehend that nothing but experience can reſolve it.

Now let me conſider the difference there is between the trade of France and that of England as matters now ſtand; and what would be the caſe, were the regulations of the mint the ſame in both countries.

England loſes by this ſometimes 8 per cent. upon her trade with France;

I ſhall ſuppoſe that England buys of French goods as much as may be paid with one thouſand pounds troy weight of Engliſh guineas. I aſk for what weight of French louis d'ors muſt France buy of Engliſh goods to make the balance even? Will it not be anſwered (according to the ordinary method of calculating the true par of exchange), that if France buy for one thouſand pounds troy of her louis d'ors (ſuppoſing the guineas and the louis d'ors of the ſame fineneſs) that the balance will be even?

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Is it not true, that England muſt ſend this thouſand pounds weight either in gold bullion or in guineas; and is it not the ſame thing to the Engliſh merchant to ſend the one or the other, provided the guineas be full weight?

But when France comes to ſend the thouſand pounds weight of her louis d'ors, ſhe finds at market a thouſand pounds weight of gold bullion 8 *per cent.* cheaper, and this bullion is as good to the Engliſhman as if he had got the louis d'ors.

Let me ſtate the caſe otherwiſe. Suppoſe France buys in England for 1000 pounds weight of her guineas in Virginia tobacco; and that England buys in France for 1000 pounds weight of her louis d'ors of Bourdeaux claret. Is not this called par? Will not France pay her debt to England with 1000 pound of gold bullion? Whereas England muſt pay 1080 pounds to France; becauſe 1000 pounds weight of her louis d'ors, is worth in France 1080 pounds of any bullion of the ſame ſtandard. The 1000 pounds then compenſate the 1000 pounds; the 80 pounds over muſt be ſent to France, and the carriage of this quantity only, ought to be paid for according to the principles of exchange.

Here is evidently a balance of trade againſt England of 8 *per cent.* above the real par of the metals. Will any body ſay that the 8 *per cent.* is paid for the tranſportation of 80 pounds of bullion due? Certainly not.

Now if the Engliſh ſhould declare that they, for the future, would coin neither gold or ſilver bullion for any perſon, but at the rate of 8 *per cent.* below the

the value of the coin; and if it be true, that this regulation would have the effect of ſinking the price of bullion, on many occaſions, to 8 *per cent.* below the coin; in this caſe, would not the Engliſh and the French acquit their debts of the 1000 pounds weight of their reſpective coin upon the ſame conditions? In this caſe, would not the price of exchange vaniſh, ſince there would be no bullion to be ſent by either party? But in the firſt caſe, would not England be obliged to ſend 8 *per cent.* above the quantity of gold bullion ſhe received from France, and would not the tranſportation of this coſt money, and would not this tranſportation be marked by a certain price of exchange, and conſequently, would not the price of exchange riſe againſt England?

But to this it is objected, that by the former example, the exchange marked 8 *per cent.* againſt England with great reaſon; becauſe it is plain, that there was a balance of 8 *per cent.* againſt England, ſince ſhe ſent that proportion over to France in bullion. Very true. But had England, inſtead of taking to the value of 1000 pounds weight of louis d'ors in claret, taken only for 100 pounds weight, the exchange would have ſtill marked 8 *per cent.* loſs; becauſe the 100 pounds of louis d'ors muſt have been paid with the 108 pounds of bullion, although England by this trade had evidently gained 892 pounds of bullion, which France muſt have ſent her as a balance.

As matters of fact, when they can be procured, tend greatly to confirm theory, by forming a ſolid baſis whereupon to reaſon, I ſhall here profit of one

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which has fallen into my hands, and, by applying it to the preſent queſtion, endeavour to give ſome additional force to this reaſoning.

and at a medium 4 per cent. as is proved by a matter of fact.

Mr. Cantillon, in his *Analyſis of Trade*, which I ſuppoſe he underſtood by practice as well as by theory, has the following paſſage in his 99th page:

"The courſe of exchange between Paris and "London ſince the year 1726, has been at a me-"dium price of 32 pence ſterling for the crown of "three livres; that is to ſay, we pay for this "French crown of three livres, 32 pence ſterling, "*when calculated on gold*, when in fact it is worth "but thirty-pence and three farthings, which is "giving four pounds in the hundred for this "French money; and conſequently, upon gold, "the balance of trade is 4 *per cent.* againſt Eng-"land in favour of France."

In this place, Mr. Cantillon calculates the par of exchange according to the common rule, to wit, gold bullion againſt gold bullion in the coins of both nations, where both are ſuppoſed to be of legal weight; and he finds that there has been, theſe thirty-four years paſt, a balance of 4 *per cent.* againſt England.

Now, according to my theory, this is exactly what the coinage in France ought to produce, ſuppoſing on an average that the trade had been at par. Here is the reaſon.

The coinage in France coſts 8 *per cent.*

When the balance of trade is favourable for France, coin is worth 8 *per cent.* above bullion.

The proof is plain. Were not the coin 8 *per cent.* above bullion, no man would ever carry bullion

lion to the mint; becauſe the mint price is 8 *per cent.* below that of the coin.

When the balance of trade is againſt France, coin muſt fall nearly to the price of bullion.

Suppoſing then the balance of the trade of France (at a medium of thirty-four years) to have been at par, will it not follow, that at a medium alſo of theſe thirty-four years, French coin muſt have been at 4 *per cent.* (the half of the coinage) above bullion? Conſequently England having taken merchandize from France, and France having merchandize from England, for the ſame weight and fineneſs in their reſpective coins, muſt not England have been obliged to ſend to France 4 *per cent.* more bullion in order to pay the coinage? This reaſoning appears concluſive to me, who am no merchant, and who do by no means pretend to a perfect underſtanding of mercantile affairs; but I think this circumſtance is at leaſt of ſufficient importance to make the matter be inquired into. For this purpoſe, I ſhall ſuggeſt a method of making the diſcovery.

Eaſy to be verified at all times by the price of bullion and courſe of exchange in the Paris market.

If it ſhall be found, that Engliſh draughts on Paris, or French remittances to England, ſhall at any time occaſion bullion to riſe in the market of Paris above the mint price, will it not be allowed that ſuch a circumſtance demonſtrates that the balance of trade is then in favour of England? If at that ſame time it ſhall be found, that exchange (when reckoned upon the gold, as Cantillon has done) is againſt England, will it not be a demonſtration of the truth of what I have here ſuggeſted as a queſtion worthy of examination?

When bullion is exported to England, exchange is against France.

For if the balance of trade be againſt France, ſo as to make her buy bullion to ſend to England, this is a proof that ſhe owes England a balance; and if at the ſame time the Engliſh be paying above the intrinſic value of the metals (in their reſpective coins) in what they owe to France, this additional value cannot be paid by England as the price of exchange, or to pay for the tranſportation of their bullion, but to pay the French creditors the additional value of their coin above the price of their bullion.

Courſe of exchange no rule of judging of the balance of trade, but only of the value of coin.

May we not alſo conclude, that in a kingdom ſuch as England, where coinage is free, the courſe of exchange is no certain rule for judging of the balance of trade with France; but only of the value of French coin above French bullion? All authors who have written upon exchange, repreſent the advanced price given upon bills above the intrinſic value of the coins, to be the price of carriage and inſurance, &c. in which caſe exchange, no doubt, *may* mark the balance of trade; but if an advanced price muſt be given in order to put bullion into coin, or in other words, if the metals in the coin be worth 8 *per cent.* more than any bullion of the ſame fineneſs, is it not evident that a nation may be drawing a great balance of bullion from another, although ſhe be, at the ſame time, paying 8 *per cent.* above the rate of bullion in the ſums ſhe repays to the nation which is her debtor upon the whole; that is to ſay, although ſhe be paying above the real par of exchange, *as it is commonly calculated.*

If

If it be here objected that this cannot be the caſe, becauſe when the balance of trade is againſt the nation which impoſes coinage, their coin falls to the price of bullion: I anſwer, that a balance may be againſt ſuch a nation, without producing ſo great a fall in the coin. Coin is reduced to the par of bullion when the balance is at the height only againſt a nation, and when it has remained ſo for a long time. Who would give coin at a diſcount of 8 *per cent.* if there were a proſpect that in a few days, weeks, or even months, it was to riſe to its former value?

Theſe are the reaſons which engaged me, in a former chapter, to lay it down as a rule, that trading ſtates ſhould endeavour, as nearly as poſſible, to obſerve the ſame regulations with their neighbours, in every thing relating to their coin. It is alſo in order to facilitate ſuch a regulation, that I ſhall inſert, at the end of this book, a very particular ſtate of the French coinage, and of what I can gather with regard to that of Holland.

The real par not to be calculated by the intrinſic value of the coin, unleſs bills were drawn in weight of fine bullion.

From what has been ſaid, it appears that the common method of calculating the real par of exchange is not correct, ſince it is calculated by comparing the quantity of fine bullion in different coins, and attributing the difference between the bullion paid for the paper, and the bullion received in payment of it, as the price of tranſportation. This, I ſay, is by no means correct; nor is it poſſible it ſhould be ſo, unleſs bills of exchange were ſpecified in the weight of fine bullion, inſtead of being ſpecified in the denominations of the coin: an example will make this plain.

Were

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Were a merchant in London to aſk of another who has a correſpondence in Paris, to give him an order for a hundred yards of Abbeville cloth, and to offer him, in exchange, the ſame quantity of cloth of a worſe quality, would not the merchant to whom the propoſal is made, immediately calculate the value of both commodities, and demand the difference of the value between what he was to give, and what he was to receive? Could ever this difference be conſidered as any thing elſe than the difference between the real worth of the commodities? But were they to exchange at London an hundred pounds of fine ſilver bullion, for the ſame weight at Paris, the proportion of the metals being ſuppoſed the ſame in both places; then if the merchant demanded one grain more than he was to give, it muſt be upon the account of tranſportation; becauſe, weight for weight, there is not the ſmalleſt difference between the fine metals.

Bills of exchange, then, being all conceived in denominations of money of accompt, realized in coin; and coin altering in its value with regard to bullion; it is evident that the real par cannot be computed upon the bullion alone contained in the coin.

Obj. Exchange regulates the price of bullion.

If it be objected, that ſince it is the price of exchange which regulates the price of bullion, all variations between bullion and coin ought to be aſcribed to that cauſe.

Anſw. Denied: exchange only raiſes its price; the mint price pulls it down.

I anſwer, that it is not the price of exchange which regulates the price of bullion; but this price of exchange makes a demand for bullion aſcend from the price to which it is regulated at the mint.

The

Balance upon the real par, no mark of a balance upon trade; proved by examples.

The mint price regulates the price of bullion; and there it will nearly ſtand, while the balance of trade is either at par, or favourable to a country. A demand for bullion therefore, or a wrong balance, can only make it riſe; and it returns to where it was, by the force of another principle.

In the next place, were I to allow that the balance of trade does regulate the price of bullion, it would not follow that what is called the *real par* of exchange is a rule to judge of the *balance of the trade* of a nation. Is it not plain, that if France, for example, being at preſent obliged to ſend great ſums into Germany, upon account of the war (1760), have reduced the price of her coin to a par with bullion, that all nations in their trade with France, will profit of this reduction as much as if the balance were become favourable to themſelves; ſince the courſe of exchange will then anſwer according to the converſion of bullion for bullion in all remittances to France?

But were France at preſent to remit money to any other country, which has the balance favourable, and where coinage is paid, ſuppoſe to Spain, while the balance between France and Spain is ſuppoſed to be exactly even; would not the real par between the money of Spain and of France mark an exchange againſt France, for the value of the coinage impoſed by Spain? This is the reaſon why, in time of war, exchange between France and England appears more favourable to England than in time of peace. But does this anywiſe prove that the balance of trade is then more in favour of England? by no means: for let me ſuppoſe the

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the balance of their trade to remain the ſame after the peace as at preſent; is it not evident, that in proportion as the value of the coin of France ſhall riſe above the bullion, that the *balance of trade* will become, in appearance, againſt England?

Balance of trade, what.

By the *balance of trade*, I here conſtantly underſtand a certain quantity of bullion ſent by one nation to another, to pay what they have not been able to compenſate by an exchange of their commodities, remittances, &c. and not that which they compute in their bills as the difference between the reſpective values of coin and bullion in both countries.

How, then, is the real par of exchange to be regulated, ſo as to determine which nation pays a balance upon the exchange of their commodities?

The real par of exchange to be fixed by the fluctuating value of the coin, not by the permanent quantity of the bullion it contains.

I anſwer, To determine this queſtion, let bullion over all the commercial world be ſtated at 100, and let coin in every country be compared with it, according to the current price in each country. In England, for example, (were all diſorders of the coin removed,) coin muſt always be as 100. In France, when the balance is favourable, at 108.27. In Germany (were the Emperor's late regulation with Bavaria to be made general) at 101. And ſo forth, according to the price of coinage impoſed every where. Theſe advanced values above the 100, never can riſe higher; and the more the balance of their reſpective trade is unfavourable, the nearer they will ſeverally come to 100; below which they never can fall. Theſe fluctuations will conſtantly be marked in exchange; becauſe all circumſtances are exactly combined by merchants; but

but the *balance of the trade* will only be marked *by what exchange is made to vary from theſe proportions.*

CHAP. II.

Let me ſuppoſe the trade of France to be favourable upon the whole, by great commiſſions from Cadiz, and bullion at the ſame time to be carried to the mint at 8 *per cent.* below the price of coin.

Proof of this propoſition.

Let me ſuppoſe, that upon all the trade of England with France, there ſhall be, at this time, a balance of 2 *per cent.* ſent from France to England in bullion; and upon the trade with Germany a balance of 1 *per cent.*

I ſay, that the *par of exchange* between England and France is 8 *per cent.* againſt England; and that the *par of exchange* between Germany and France is 7 *per cent.* I ſtate it at this rate; becauſe the balance being ſuppoſed favourable for the three nations, the value of their coin with reſpect to their bullion ought to be in proportion to the mint price.

The *courſe of exchange*, therefore, if it be a rule to judge by, ought to mark 6 *per cent.* againſt England; which I ſay is 2 *per cent.* in her favour: and the exchange with Germany ought to mark 6 *per cent.* againſt Germany; which I call 1 *per cent.* in her favour.

An example will make this plain.

Suppoſe Engliſh guineas, German carolins, and French louis, to be all of the ſame weight and fineneſs; I ſay, *the real par* in the example we have ſtated is, between Paris and London, 100 louis are equal to 108 guineas; becauſe the 100 louis are worth 100 guineas in London, and 108 guineas are worth no more than 100 louis in Paris.

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Paris. Again, between Paris and Francfort, 100 louis are equal to 107 carolins; becauſe 108 carolins are worth at Paris 100 louis; and 101 louis at Francfort are worth 100 carolins; conſequently, the difference between 107 and 108 is the *real par*, to wit, 100 louis for 107 carolins. Next, as to the par between London and Francfort, here 100 carolins equal 101 guineas; becauſe 100 carolins in London are worth 100 guineas; and 101 guineas at Francfort are worth no more than 100 carolins.

Now in the ordinary way of reckoning the *real par*, the 100 louis, 100 carolins, and 100 guineas, are all ſuppoſed to be of the ſame value, in the three markets; and the difference between this ſuppoſed value, and what is paid for it, is ſuppoſed to be a loſs upon trade. In this light, the nation's loſs reſembles the loſs incurred by him, who, when he goes to the bank, and pays ten pounds ſterling in coin, for a bank-note, ſays that he has given given ten pounds for a bit of paper, not worth one farthing; reckoning the value of the note, at the real par of the paper it is written upon.

The general rule, therefore, I think, is, to ſettle the real par of different coins, not according to the *bullion* they contain, but according to the bullion they are worth in their own market at the time.

If 1000 pounds weight of guineas can purchaſe at London 1000 pounds weight of ſtandard bullion; and that 1000 pounds of the ſame weight of louis can buy at Paris 1080 pounds weight of the ſame ſtandard bullion; then the 1000 pounds weight of guineas is at the real par with 925 $\frac{926}{1080}$ pounds

pounds weight of the louis, and not worth 1000, as is commonly ſuppoſed. CHAP. II.

If the doctrine laid down in this chapter be found ſolid; if no eſſential circumſtance have been overlooked, which ought to have entered into our combinations (points left to the reader to determine), then we may conclude,

Firſt, That the courſe of exchange, in the way people take to calculate the real par, is no rule for judging of the balance of trade.

Secondly, That the great duty laid upon the fabrication of the French coin, either deceives the Engliſh nation, and makes them conclude, from the courſe of exchange, that their commerce with France is extremely diſadvantageous: or, if it be really diſadvantageous, that it is the impoſition of a duty on coinage in the French mint which occaſions it.

It is a queſtion belonging to the theory of commerce, and not to this which we are now upon, to examine the nature of a diſadvantageous trade, and to inveſtigate the principles which point out the commodities which every country ought to encourage for exportation, and thoſe which are the moſt profitable to take in return.

Application of theſe principles to the Engliſh trade with France.

Upon theſe principles the trade of England with France muſt be examined, and upon examination it will be found whether this trade be advantageous or hurtful. Here the queſtion is reduced to this; Whether from the courſe of exchange, and becauſe the French crown is commonly paid with thirty-two pence ſterling, it may be concluded that the balance of trade is againſt England. We have decided

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decided that it cannot.] If there be no other objection againſt the trade of France but this loſs upon exchange; and if it be true that this is no proof of trade's being againſt England, but the conſequence only of her free coinage; then it will follow, that England may lay as many reſtrictions, duties, and clogs, upon the French trade, as ſhe pleaſes, and may even reduce it to nothing, without ever removing the cauſe of her complaint; while at the ſame time ſhe may be ruining a trade, which pays her upon the whole a great balance, and upon which trade ſhe has it in her power, by following a different ſyſtem in her mint, to render her exchange as favourable as with any other nation in Europe.

This point ſeems to be a matter of no ſmall importance to England; ſince (from a miſtake in point of fact, into which ſhe is led from a deluſive appearance) a very lucrative trade, when conſidered by the balance it produces, may, upon falſe principles, be proſcribed as diſadvantageous.

Theſe queſtions, however, are not as yet conſidered as entirely diſcuſſed, and they ſhall be a little farther examined in the following chapter.

CHAP.

CHAP. III.

Is the loſs which the courſe of exchange marks upon the trade of Great Britain with France real or apparent?

CHAP. III.

QUESTIONS are here propoſed, which I do not pretend to reſolve; all I aim at is to diſcover how they may be reſolved.

Reaſon for propoſing this queſtion.

If this inquiry ſhall prove an incitement to men of better capacity to review the ſame ſubjects, who have more extenſive combinations, more experience, and better information as to facts, in this reſpect it has ſome degree of merit.

Suppoſitions.

I anſwer to the queſtion propoſed, that if the impoſition of a duty on coinage in England would have the effect of rendering her trade with France more lucrative, then the loſs marked by the courſe of exchange is real, at leaſt in part; if otherwiſe, it is only apparent.

Principles.

What makes the commerce with any country lucrative, is the balance paid upon the exchange of their commodities.

What regulates the quantity of commodities taken from any country, in the way of trade, is the wants of the country demanding; and what ſets the balance even, is the reciprocal wants of the other country. Nations do not give up correſpondence with their neighbours, becauſe theſe do not accept of merchandize in exchange for merchandize,

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chandize, but becauſe they find their advantage in ſupplying their wants upon eaſier terms elſewhere.

Every merchant ſeeks to ſell dear; and the dearer he can ſell, the greater is his profit: that merchant, therefore, muſt thrive moſt, who ſells deareſt, and who at the ſame time *can afford* to ſell cheapeſt.

If an impoſition on coinage ſhall enable England to ſell dearer, without depriving her of the advantage of being able to ſell as cheap as at preſent, then it will follow, that an impoſition on coinage will be advantageous. If it ſhall lay her under a neceſſity of ſelling dearer, and deprive her of the poſſibility of ſelling ſo cheap as formerly, then the impoſition of coinage will be hurtful.

How the paying for coinage affects the profits on goods exported.

Theſe principles premiſed, as a foundation for our reaſoning, let us firſt conſider the influence of coinage upon the profits on *exportation*; and then proceed to inquire into the influence it has upon articles of *importation*.

As to the firſt, I muſt obſerve, that England, as well as every other country, has ſeveral articles of exportation which are peculiar to herſelf, and others which ſhe muſt ſell in competition with other nations.

The price of what is peculiar is determined by the competition of thoſe who furniſh it at home, and the loweſt price is regulated by their minimum of profit. The price of what is common is regulated by the competition of thoſe who furniſh from different countries.

If

If the prices of what is peculiar ſhall remain, as before, attached to the denominations of the coin, after the impoſition of a duty on coinage, the competition of thoſe who furniſh will remain the ſame as before; becauſe prices will not vary; but the ſtranger, who buys, muſt nevertheleſs pay an advanced price for ſuch merchandize, becauſe the nation's coin, with which they are purchaſed, will be raiſed in its value with reſpect to bullion, the only price he can pay with. This is the price of coinage: and this impoſition has the good effect of obliging ſtrangers to pay dearer than before, in favour of a benefit reſulting therefrom to the ſtate.

Now, if it be obſerved that the demand made by the Engliſh for goods peculiar to France (while theſe remain in France at the ſame price as formerly) does not diminiſh in proportion as the loſs upon exchange happens to riſe; why ſhould we ſuppoſe that the demand for goods peculiar to England ſhould diminiſh, for a ſimilar reaſon?

If the riſe, however, in the price of exchange ſhould diminiſh the foreign demand for ſuch Engliſh goods, by raiſing the price of them in the foreign market, this, at leaſt, will prove that coinage does not make prices fall proportionally at home; becauſe, if they ſhould fall, ſtrangers would buy as cheap as formerly: the prime coſt (as it would appear upon the accounts of their Engliſh correſpondents) would diminiſh in proportion to the loſs upon exchange in remitting to England, and would juſt compenſate it: ſo upon the whole, the price of the merchandize would be the ſame in the foreign market as before.

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If the impoſition of coinage, therefore, be ſaid to raiſe the price of Engliſh merchandize in foreign markets, it muſt be allowed that it will not raiſe the value of the pound ſterling at home, by ſinking the value of commodities: that is to ſay, the prices of commodities will adhere to the denominations of the coin; and the coin bearing an advanced value, above what it bore formerly, ſtrangers muſt pay it.

But will not this diminiſh the demand for Engliſh goods? Not if they be peculiar to England, as we here ſuppoſe. But allowing it ſhould, will not this diminution of demand ſink the value of the Engliſh coin, by influencing the balance of trade? If ſo, it will render remittances to England more advantageous: conſequently, it will recall the demand. The diſeaſe, therefore, in this caſe, ſeems to draw the remedy along with it.

Now what appears here to be a remedy againſt a diſeaſe, is at preſent, as we may call it, the ordinary Engliſh diet, ſince it is ſinking the coin to the price of bullion. If, therefore, the having of coin always as cheap as bullion, can be any advantage to trade, the nation is ſure of having it, whenever the balance is unfavourable, notwithſtanding the impoſition of a duty on coinage.

When the balance is favourable.

Trade has its viciſſitudes, and all nations find, at times, that their neighbours muſt depend upon them. On ſuch occaſions, the balance of their commerce is greatly in their favour.

Is it not, therefore, an advantage to have a principle at home, which, upon ſuch occaſions, is capable of diminiſhing with us the value of that merchandize (bullion) which ſtrangers muſt give as the price of all they buy?

On

On the other hand, the ſame principle ſeems to fly to the aſſiſtance of trade, when the balance becomes unfavourable, as it virtually diminiſhes to ſtrangers the price of all our commodities, by raiſing in our market the value of that commodity (bullion) which they muſt give as the price of what they buy.

And how, when unfavourable.

This may ſuffice, in general, upon exportation. It is a hint from a perſon not verſed in commerce; and as ſuch it is ſubmitted.

I now paſs to the ſecond part of this operation, to wit, the influence which the impoſition of coinage has upon the intereſts of trade, when the queſtion is to purchaſe the commodities of other countries. Theſe operations are quite different, and in examining this theory they muſt be carefully diſtinguiſhed.

How the paying for coinage affects the profits on goods imported.

We have ſeen how the impoſition of coinage, during the favourable balance of trade, procures to the nation an advanced price upon the ſale of her exports. As long as it remains favourable, it muſt produce the ſame good effect with regard to her importations, by ſinking at home the price of the bullion with which ſhe muſt pay for them. Bullion muſt become cheap in the Engliſh market, in proportion as the balance of her trade is favourable, and in proportion as it is cheaper there than in other nations (with reſpect to their reſpective coins) in the ſame proportion the nation has an advantage in paying what ſhe buys, or in employing her bullion for extending the fund of her own commerce.

When the balance is favourable.

Upon the other hand, ſhould the balance of her trade turn againſt her, her bullion riſes. This

And how, when unfavourable.

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renders the price of all foreign merchandize dearer to the importers than otherwiſe they would be; becauſe they muſt pay them in bullion. But this loſs is at preſent conſtantly incurred; and when incurred, is not *national*, the national loſs is upon the balance of the trade; but whether this balance be paid in bullion at the mint price, or in bullion at the price of coin, the balance of the trade is juſt the ſame. Now if this wrong balance (which I here ſuppoſe to proceed merely from the imports exceeding the exports upon trade in general) renders the purchaſe of foreign commodities dearer to the merchants, without coſting more to the nation; is not this ſo far advantageous, that it diſcourages importations juſt at the time they ought to be diſcouraged, and thereby may *tend* to ſet the balance even again?

Thus I have endeavoured to analize the influence of this principle in the four caſes; to wit, upon exportation and importation, under a favourable and unfavourable balance of trade. Theſe different combinations muſt always be examined ſeparately, or elſe obſcurity and confuſion will enſue.

We muſt alſo obſerve, that there are ſtill other combinations to be attended to, although it be ſuperfluous to apply the principles to them; becauſe the variations proceeding from them are ſelf-evident. I mean, that this queſtion may be conſidered as relative to a nation which has coinage free, with reſpect to another nation where that duty is impoſed. In this caſe we may decide, that as far as the ſituation of the latter is advantageous, ſo far muſt that of the former be diſadvantageous, and *vice verſa*.

The

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The queſtion may alſo be conſidered in relation to countries who have the duty on coinage either the ſame, or different. When they have the ſame, there can be no advantage on either ſide; excepting in this reſpect, that the nation which has, upon an average, the balance of trade in her favour, will thereby render her trade ſtill more favourable than it would be, were the coinage free on both ſides.

The more trade is favourable, the more adviſeable it is to impoſe a duty upon coinage.

From which we may conclude, that the more a nation has the advantage in point of trade, the more it is her intereſt to impoſe the duty of coinage. When the impoſition is unequal in the two countries, I apprehend that the country which lays the ſmalleſt duty upon her coinage, may be conſidered as having it altogether free, and that the other may be conſidered as impoſing no more than the difference.

Upon theſe principles muſt the queſtion here propoſed be reſolved. They never can decide as to the matter of fact, to wit, whether the French trade is hurtful or lucrative: all we are warranted to conclude from them is, that the trade of Great Britain would be more advantageous with France than it is, were a duty on coinage to be laid in England as high as there. In this ſenſe, we may ſay, that the apparent loſs by exchange is a proof that coin is commonly dearer in France than in England; from which a loſs may be implied; but the loſs upon exchange nowiſe denotes the degree of loſs upon the trade, and much leſs does it certify that the balance upon the whole is againſt Great Britain.

CHAP. IV.

Of the different methods of impoſing coinage; and of the influence they reſpectively have upon the value of the money-unit, and upon the domeſtic intereſts of the nation.

BOOK III.

Two ways of impoſing coinage.

THERE are two ways of impoſing coinage; one by poſitive law, and by the force of that authority which is everywhere lodged in the legiſlature; the other, which is more gentle, renders the impoſition almoſt inſenſible, and is effectuated by the influence of the principles of commerce.

By the one and the other the ſame end may be obtained; with this difference, that all circumſtances muſt yield to the force of authority: and when this is employed, coinage is impoſed as a tax upon coin, in ſpite of all reſiſtance; whereas, in the other caſe, the effect takes place by degrees; it is no tax upon coin; but it is liable to interruptions; and therefore, upon a general recoinage of all the ſpecie of a nation, it is not ſo effectual as the firſt; although it may anſwer perfectly well for ſupporting a fund of good ſpecie, and for replacing all the diminutions it may ſuffer from melting down or exportation.

Plan laid down in this chapter.

I ſhall now give examples of the one and the other method: I ſhall point out ſome of the conſequences which attend both: I ſhall chalk out a rough draught of the principles, which may be applied

plied in forming a plan for laying on this impoſition in the Engliſh mint: and, laſt of all, I ſhall ſhew how the experiment may be made.

How coinage is impoſed by authority.

Were the government of England to call in, at preſent, all the coin in the nation, in order to be recoined, and to fix the mint price of it, as gold and ſilver ſtandard bullion, at —— *per cent.* below the value of the new coin; this would be impoſing coinage by poſitive law; and being an arbitrary operation upon the coin of the nation, could not fail of influencing the value of the money-unit.

How by conſent.

Were government, on the other hand, to give orders to the mint, to pay for gold and ſilver bullion for the future, no dearer than —— *per cent.* below the coin, this would be no arbitrary operation on the coin of the nation, and would not (as I imagine) influence the value of the money-unit, although it might ſink the price of bullion, by the influence of the principles of commerce.

The different conſequences of theſe two methods of impoſing coinage are now to be explained.

When by authority, what is the conſequence.

Were England, during a war, or at any time when the balance of her trade is unfavourable, to impoſe coinage by law in the manner propoſed, the conſequence would be, that all the ſpecie in Great Britain, or at leaſt a conſiderable part of it, might poſſibly be melted down, and ſold in the market for bills of exchange. In a nation of trade, where credit is ſo extenſively and ſolidly eſtabliſhed, there would, in ſuch a caſe, be no difficulty to find an outlet abroad for all the metals in the kingdom; becauſe then every thing would be conſidered as profit, which was leſs than the —— *per cent.* loſs in carrying the coin to the mint.

The metals are exported.

If

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If it be objected, that this plan has been many times executed in France, particularly in 1709 and 1726, without any ſuch inconveniences; I anſwer, as I have done upon other occaſions, circumſtances are to be examined.

How, in France, this is prevented in ſome meaſure.

Upon ſuch occaſions, in France, the coin is ordered to the mint, upon penalties againſt thoſe who ſhall not obey; melting down is ſtrictly inquired into, and ſeverely puniſhed; all the roads which lead to foreign countries are beſet with guards, and no coin is ſuffered to be exported; all debts may be demanded in coin; and all internal commerce is carried on with ſpecie.

This is a violent method of impoſing a tax upon all the coin in the nation; and the general coinage is made with no other intention. In the coinage 1709, this tax amounted to $23\frac{1}{13}$ *per cent.* (Dutot, Vol. I. p. 184.)

French politics as to coin, not generally underſtood.

Under theſe circumſtances, it is very evident, that thoſe who have coin or bullion muſt either carry it to the mint, or bury it: there is no middle courſe to be followed.

Let me here obſerve by the bye, how frequent it is to ſee people blame the greateſt miniſters raſhly, and impute to them the moſt abſurd opinions concerning the moſt ſimple matters. How much have the miniſters of France been laughed at, for pretending to forbid the exportation of coin, in order to pay the balance of their trade? They did not forbid the exportation of the coin for the paying of their debts: On the contrary, the King has ſometimes had his bankers, whoſe buſineſs it was to ſend coin to Holland for this purpoſe, as we ſhall explain

explain in another place. This, I think, is common ſenſe.

If the ridicule is turned againſt thoſe ſtates, who forbid the melting down and exportation of coin, where coinage is free, I muſt alſo make anſwer, that *there* the prohibition is laid on, to ſave to government the expence of perpetually recoining what is melted down, or of coining the foreign ſpecie, imported in return for that of the nation which has been exported without neceſſity.

Let us next examine the conſequence of impoſing coinage by law, when the plan is ſo laid down (no matter how) as not to be fruſtrated by the total deſertion of the mint.

How coinage influences the price of inland commodities.

Is it not evident, from the principles laid down in the firſt chapter, that, in this caſe, the value of the coin muſt riſe, not only with reſpect to bullion, but with reſpect to every commodity: or, in other words, that the prices of commodities muſt fall univerſally with reſpect to the denominations of the coin? For who will pay the ſame price for a commodity, after he has been obliged to pay —— *per cent.* to purchaſe the price with which he muſt buy? But the moment the great operation of the general coinage is over, and that trade begins to work its former effects, while the balance of it is ſuppoſed to remain unfavourable, all prices will return to their former rate, with regard to the denominations of the coin, by the operation of another principle. The new coin procured at ſo much coſt will then fall to the price of bullion; that is to ſay, all the price paid for coinage will be loſt, and conſequently money will return to its former value;

or

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or, in other words, prices will be made to riſe to their former height; becauſe then nobody will be obliged to pay —— *per cent.* to procure the price.

A caſe not to be reſolved by this theory, but left to be verified by experiment.

Now, it is the effect produced on prices by the *return* of a favourable balance, when coin *regains* an advanced price above bullion by the influence of commerce, which my theory does not reach to. I cannot diſcover a principle, which can force the prices *of articles of inland conſumption* to fall and fluctuate with the prices of bullion; becauſe I find them too cloſely attached to the denominations of the coin; and that foreign commerce has not ſufficient influence upon them. As this combination is beyond my reach to reſolve, I leave it to the deciſion of experiment.

An objection anſwered.

Here a plain objection occurs againſt what has been ſaid in the twelfth chapter of the firſt part, viz. That the wearing of the Engliſh coin has the effect of raiſing the price of corn in the market, which would be made to fall upon a reſtitution of the coin to legal weight. But the anſwer is plain. In the former caſe, the diminution of the value of the coin was ſuppoſed real and permanent; in which caſe, with time, it works its effects of raiſing prices without doubt: but here the augmentation is not real, and the fluctuations of the value of the coin with reſpect to bullion, are both imperceptible to any but merchants, and at the ſame time ſo uncertain, that they have not time to work their effects upon the price of other commodities.

Were a balance of trade to continue long favourable, and were coin to preſerve, during all that time, the ſame advanced value with regard to *bullion*,

lion, in this caſe I have little doubt but the value of that univerſal commodity (bullion), in conjunction with the operations and influence of foreign commerce, might reach inland markets, and reduce the price of commodities. But as this ſeldom happens (as I am apt to believe), we may ſay, that in proportion as it is more or leſs the caſe, a duty on coinage will more or leſs reduce the price of commodities.

Coinage affects the price of bullion immediately; and that of commodities indirectly.

Coinage therefore ought, upon many occaſions, to be conſidered as affecting *immediately* the price of bullion only, and that of commodities *indirectly*: whereas the diminution of the intrinſic value of the coin, by immediately affecting *price*, muſt conſequently affect the rate of every thing which is given for it.

Let us next examine the conſequence of impoſing coinage by the influence of the principles of commerce.

Conſequence of the price of coinage impoſed with conſent.

The method here is to leave every one free to do with his coin, or with his bullion, what he pleaſes. If people incline to melt down or export the coin, they may have entire liberty to do it: no penalty need to be impoſed; the expence of procuring new coin, will be ſufficient to ſtop the practice.

In order to make our reaſoning here more diſtinct, let us form a ſuppoſition with regard to a new regulation of the Britiſh coin.

The preſent confuſion has convinced every man, that a reformation of the coin is neceſſary; and the opinions of thoſe who have written beſt upon this ſubject ſeem to be divided upon one main article. The metals are diſproportioned in the coin, the gold

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gold being there to the ſilver, as 1 to 15.21, inſtead of being as 1 to 14.5. By law, 113 grains of gold are made equal to 1718.7 grains of ſilver. One party would have the ſilver adjuſted to the gold; the other would have the gold adjuſted to the ſilver. This is the queſtion, in a few words. Now, ſuppoſe a middle courſe were taken, and that the ſtandard were to be fixed at the mean proportion of theſe two values; that is, at the value of the half of 1718.7 grains fine ſilver, added to the half of 113 grains fine gold; which, in the firſt part of this book, we have ſhewn, by many arguments, to be the only method of preſerving an equality in the money-unit; this will make the new pound conſiſt of 1678.6 grains of fine ſilver, and 115.77 grains fine gold: and this is alſo a ſort of medium between the two opinions.

At this rate, the pound troy ſtandard ſilver muſt be coined into 63 ſhillings and 6 pence, and the pound troy ſtandard gold into 46 guineas, or pound pieces, each worth 20 ſhillings.

Now, if upon both ſpecies 8 *per cent.* coinage were impoſed, (for as all this is a pure ſuppoſition, it is no matter at what rate the coinage be ſtated,) then the mint price of the pound troy fine ſilver muſt be fixed at 63*s.* 1¾*d.* and the mint price of a pound troy of fine gold at 45*l.* 5*s.* ¾*d.* ſterling.

That bullion is brought to the mint when trade is favourable.

Suppoſe then (as an example) that the mint price of fine bullion ſhould be fixed at 8 *per cent.* below the coin in England; What principle could oblige people to carry bullion to be coined?

I anſwer,

I anſwer, When the balance of trade is favourable for England, that balance muſt ſooner or later be paid in bullion. If trade ſtill continue favourable, after the firſt balance is paid to England, what uſe can thoſe who have the bullion make of it, if there be no demand for it to work it into plate? To export it, by employing it in trade, does not remove the difficulty; becauſe, while the balance ſtands favourable, export as much as you will, more bullion muſt enter than it is poſſible to export, in the way of trade; for we do not ſuppoſe that in exporting it, it is to be given away gratis. The bullion, therefore, not being demanded for exportation; not being permitted to paſs current for money; and not being demanded for making into plate; muſt be employed ſo as to be profitable to the owner in one way or other. For this purpoſe it muſt be lent, or employed within the country for purchaſing ſome ſort of effects which produce an income. For this purpoſe the bullion muſt be coined, in order to render it capable of circulation, and of becoming price.

At all times, therefore, when in a country there is bullion, not demanded as ſuch, the proprietor carries it to the mint, he ſells it at the mint price; and as this mint price is ſtated at 8 *per cent.* below the price of coin, he gives it for the price he can get for it: this he does without regret, becauſe, if next day he ſhould want to change his coin into bullion again, he will find it in the market at the ſame value.

If it be farther objected, that rather than carry it to the mint at 8 *per cent.* diſcount, people will lend

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lend it to foreigners: I anſwer, that if it be lent to foreigners, this lending will turn what we call the balance of trade againſt England, and then certainly nobody will carry bullion to be coined; for in whichever way it happens that more bullion is exported than is imported, in every caſe the price of exchange and of bullion muſt riſe; and this is conſtantly conſtrued, though very improperly, as a balance of trade againſt England: which, to mention it by the bye, is another reaſon to prove how ill people judge of the proſperity of trade by the courſe of exchange; ſince the lending of money, as well as the paying of debts, equally turns exchange againſt the country.

Bullion, therefore, never will be carried to the mint, when it can be diſpoſed of above the mint price; and both theory and experience, over all Europe, where, England excepted, coinage is impoſed, proves, that bullion is carried to the mint, and ſold below the price of coin, weight for weight of equal fineneſs.

How the mint price of the metals may be allowed to vary.

By fixing the mint price at 8 *per cent.* below the value of the coin, it is not neceſſary that this price be made invariable: a power may be lodged ſomewhere, by the ſtate, to make deviations from the ordinary mint price. A war breaks out; large quantities of coin are exported; ſpecie becomes ſcarce: May not the ſtate, at ſuch a time, deliver coin to the mint at the current price of the bullion? Let matters come to the worſt, the price can never poſſibly riſe above the preſent value, to wit, that of the coin when it is preſerved at its true weight. If peace return and trade become favourable, the

the mint may then be ordered to ſink its price, in proportion to circumſtances. In ſhort, the mint may receive bullion at different prices, at different times, without occaſioning the ſmalleſt confuſion by ſuch variations in the intrinſic value of the current ſpecie, which muſt conſtantly be the ſame. It is of no conſequence to any perſon who receives it, whether the coinage coſt nothing, or whether it coſt 8 *per cent.*

Influence of this method of impoſing coinage on the price of commodities, and value of the pound ſterling.

By this method of impoſing coinage, all the advantages reaped by France may be reaped by England. The bullion will be allowed to fall as low as with them, when trade is favourable. If it riſe upon a wrong balance, the mint need not be ſtopped, in caſe coin be found wanting for the uſes of the ſtate; and when that neceſſary demand is ſatisfied, the mint price may be reduced again.

I do not ſee how the value of the pound ſterling can be anywiſe influenced by this plan of impoſing coinage: becauſe the impoſition is not arbitrary; nor can it either add to or take from the maſs of the metals appointed by ſtatute to enter into the coin.

The only poſſible influence coinage can have upon the value of the pound ſterling, is by lowering the price of commodities. If it have this effect, I ſtill agree that it is the ſame thing as if an addition were made to the metals in the coin. Experience alone will reſolve the queſtion: and if by this it be found that prices are not affected by it, then we may ſafely declare, that no variation has been occaſioned in the value of the money-unit, and conſequently no injury done to any intereſt within the ſtate.

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This propoſition, however, requires ſome limitations. The prices of commodities, certainly, will not be affected *immediately* by the impoſition of coinage in the way it has been propoſed to lay it on; but I do not ſay that, upon ſome occaſions, they may not be affected by ſlow degrees.

When the balance of trade at any time has ſtood long favourable for England; when the coin has remained long conſiderably above the price of bullion; and when, conſequently, the mint has been well employed; then the value of commodities, as has been ſaid, may become influenced by the operations of foreign commerce, and be ſunk in their price. Yet even here, this conſequence is by no means certain; for this reaſon, that what turns the balance of trade in favour of a nation is the demand which foreign markets make for her commodities: now this demand, as it raiſes the value of her coin above her bullion, ſo it raiſes the price of her commodities, by increaſing foreign competition to acquire them.

Theſe combinations are very intricate, and more properly belong to the doctrine of commerce than to that which we are now upon. I have thrown them in here, for the ſake of extending the preſent theory a little farther, and for enabling us to account for appearances which may happen upon the impoſition of coinage, ſuppoſing it ſhould be thought proper to make the experiment.

CHAP.

CHAP. V.

How an Experiment may be made to diſcover with Certainty the real Effects of the Impoſition of Coinage.

CHAP. V.

WE have dwelt very long upon this part of our ſubject, and after all our endeavours to elucidate the principles which ought to decide whether the impoſition of coinage will raiſe the value of the pound ſterling, in a kingdom which, like Great Britain, is in a mercantile correſpondence with nations where this duty is introduced, we have ſtill been obliged to leave the final deciſion of the queſtion to an experiment.

By that alone it will be clearly diſcovered, whether coinage will have the effect, firſt, of ſinking the prices of commodities, to the prejudice of manufacturers; ſecondly, of raiſing the price of the pound ſterling, to the prejudice of all the claſſes of debtors within the nation; and thirdly, of hurting trade, by putting England under the neceſſity of ſelling dearer, without being able to ſell as cheap as before: or whether commodities will remain at their former prices; the pound ſterling at the ſame value; and England be enabled to ſell dearer to foreigners, when her commerce is favourable, without being obliged upon other occaſions to ſell cheaper than at preſent.

I ſhall now give a hint concerning a proper method of making the experiment.

BOOK III.

The plan of an experiment propoſed.

Suppoſe peace * to be reſtored, and a balance of trade favourable to England; that government ſhall take the reſolution to ſet about the reformation of the coin; that they ſhall publiſh the plan of reformation three years before it be intended to commence, according to what was propoſed in the 14th chapter of the firſt part; that they ſhall make a change in the mean time upon the regulation of the mint, by ordering all ſilver coin, and all guineas except thoſe of George II., to paſs by weight; that ſhillings ſhall be ordered to be coined at 65 in the pound troy; the mint price, when at par with the coin, remaining as at preſent with regard to the gold, and raiſed to 65 new pence *per* ounce with regard to the ſilver. This, I imagine, will furniſh ſpecie ſufficient to the nation, and will make no change upon the value of the pound ſterling at preſent.

The conſequence of this will be to recall the old guineas from abroad.

So ſoon as there ſhall be a few millions of ſilver coined free, let the mint price both of gold and ſilver be diminiſhed; ſuppoſe 4 *per cent.* This, I imagine, will in a ſhort time give an advanced price to coin, and ſink the price of bullion; which will have the effect of recalling all the guineas of the late King, from Holland and Flanders; becauſe coin being then dearer than bullion in England, people will chooſe to ſend over current guineas to pay their Engliſh debts, rather than to remit bills of exchange. This circumſtance will naturally ſtop the coining of gold for ſome time; but if the balance of trade ſhall continue favourable, the mint muſt, in time, be ſet a-going.

* Written in the year 1761.

During

During this period, a ſtrict attention muſt be had to the ſtate of prices. It is plain, that ſtopping the coining of gold ought not to make them ſink; ſince the daily augmentation upon the quantity of the gold coin from abroad (which will not coſt any coinage) will, I imagine, be ſufficient to compenſate it. If, therefore, prices ſhall be found to ſink notwithſtanding, this effect muſt proceed from a combination among the merchants. An intelligent perſon will quickly diſcover the true ſtate of the caſe.

During this experiment, a cloſe attention muſt be had to the rate of prices.

If the ſinking of the price of goods be a neceſſary conſequence of the impoſition of coinage, it will perhaps manifeſt itſelf by the following ſymptoms: firſt, The profit of the Engliſh merchants upon goods exported will be the ſame as before. Secondly, The price of the goods exported will be the ſame as before in foreign markets. And thirdly, Exchange will mark as many *per cent.* favourable for England as goods will have fallen in their price at home.

And if they vary, how to diſcover the true cauſe of it.

If the fall of the prices be forced, by a combination among the merchants, their profits will be greater; and very probably no variation will appear upon the exchange in favour of England.

Let, therefore, the courſe of exchange be attended to; and by this the miniſter will be able to judge, when ſilver and gold are to be brought to the mint. The moment exchange, and the price of bullion in the London market, ſhall ſhew that coin is near the full price of coinage above the price of bullion, then the time approaches when the mint is to be ſet a-going.

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Farther consequences of this experiment.

It is to no purpoſe to pretend to prognoſticate the effect of this change in the policy of the Engliſh mint. Effects it will certainly produce, which every one will interpret according as their intereſt may dictate to them. But the principles of trade are now too well known. Engliſh miniſters are too well inſtructed in the theory of it, and too ſharp-ſighted to be deceived by appearances. A trial of a few years will render the conſequences of this innovation perfectly clear; and before the great reform upon the coin can take place, the principles will be ſo well confirmed, as not to leave a ſhadow of doubt concerning the courſe which is beſt to be followed.

The ſilver coined in the interval, at 65 ſhillings in the pound troy, may then be rated at its juſt value, in proportion to the new pound ſterling, and may form a denomination by itſelf, eaſily to be diſtinguiſhed by the ſtamp. If it ſhould happen to fall into inconvenient fractions, let it be cried down, and received at the mint above the rate of other bullion: the loſs will not be conſiderable; and it cannot be expected that any plan can be propoſed which is liable to no inconvenience.

Another method is, to coin during the interval of the three years, ſhillings of the weight adapted to the new regulation, and in the mean time to give them a value proportioned to the preſent currency.

In whatever way the experiment be made, by the impoſition of the price of coinage, a great expence will be ſaved to the ſtate, namely, the expence of the mint. The national coin will be kept

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at home, and, when exported, will be preſerved from the melting pot. This is the caſe with the French coin. Why are louis d'ors worth as much as guineas in many foreign countries? It is evident that they are not intrinſically worth ſo much by 4½ *per cent.* but they are virtually ſo in the eyes of money-jobbers; becauſe, being exported from France while coin is fallen low by a wrong balance of their trade, they ſtill retain an advanced value, for this reaſon, that when ſent back, upon a revolution in trade, they become better than bullion, by all the advanced price of the French coin, at a time when their balance becomes favourable; and for this reaſon they are ſought for, and are paid for in proportion: whereas any bullion, or any coin whatſoever, is as good to ſend to England as her own proper ſpecie. It is this which occaſions the guineas to be melted down without the ſmalleſt regret *.

It

* At this place the gentlemen of the Monthly Review for Auguſt 1767, p. 118, propoſe two queſtions, which I ſhall briefly anſwer.

Queſt. I. "Is not any tax on coinage a temptation to foreigners to run coin in upon a nation, whereby their bullion may be purchaſed cheaper than at any other markets, to the great loſs of the country in queſtion?"

Queſt. II. "May not this be one reaſon, why ſo much French coin is conſtantly circulating in the provinces bordering upon France; while there is little or no Engliſh coin to be ſeen out of the kingdom?"

Anſwer to Queſt. I. Without all doubt I have obſerved in the 24th chapter of the 4th book, how the Dutch (upon the change of the French coin by the Duke of Orleans) ſtamped the old louis d'ors with the young king's head, and ſent them back to

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Can we eſtimate the wealth of a nation by the quantity of its coin?

It would be a curious inquiry to examine the proportion of money coined in England and in France, and to compare the quantities coined with the quantities in exiſtence. People commonly eſtimate the wealth of a nation by the quantity of its coined money. Some go farther, and imagine that

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France at the advanced value of 25 *per cent.*; but ſuch practices have taken place at ſuch times only, when an extravagant price has been impoſed on coinage.

It is for this reaſon alſo, that, on ſome occaſions, the very importation of *French* coin into *France*, is abſolutely forbidden.

It is hardly poſſible to imitate any coin with ſuch exactneſs as not to be diſcovered at the mint where it is coined. Whenever, therefore, ſuch forgeries are diſcovered, every method is fallen upon by government to detect and to prevent their effects. No ſtate will publicly permit the coin of any prince to be forged within their limits. Remonſtrances therefore, on ſuch occaſions, are made by the French court to the regencies where ſuch practices are in uſe; and as they are private frauds, no ſtate can have an intereſt in protecting them. Upon the whole, it is certain, that this inconvenience is inſeparably connected with the impoſition of the duty of coinage; but, *in fact*, the conſequences are found to be trifling, unleſs when the duty is exorbitant.

Anſwer to Queſt. II. The only reaſon, I think why French coin is ſo very common in *circulation* on the frontiers of that kingdom, is, that when it comes out of France, it ſtill retains, with reſpect to France, a value above every other bullion equally fine: and therefore it muſt circulate until it can return to France; becauſe in the interim nobody will melt it down. But when the forging of the French coin takes place, the forgers privately convey ſuch coin into the kingdom of France itſelf, where only they can draw the full value of their fraud; a conſiderable part of which they would be deprived of, were they to throw it into circulation in the neighbouring provinces, where (although it paſs above its intrinſic value, as has been ſaid) it is ſtill current for leſs than in France itſelf. As for

that the quantity of the coined money is the repreſentation, and even the meaſure of its wealth. I cannot be of this opinion, for reaſons which I have given in another place; but I ſhall only obſerve here, that coin, like every other thing, is made in proportion to the occaſions people have for it.

The more equality there is between induſtry and conſumption in any nation, the leſs coin they have occaſion for, in proportion to the alienations they make; the more a nation is given to penury and hoarding, their occaſions for coin are proportionally greater.

An example will make this plain. Suppoſe two markets A and B in the ſame country, where paper does not circulate; that 1000 people come to the market A with an intention to ſell what they have, in order to buy what they want; that 500 reſort to the market B with an intention only to ſell, and 500 others only to buy. In the laſt example, it is evident, that there muſt be brought to market, in ſpecie, the price of all the goods offered to ſale, or elſe

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Engliſh guineas, I muſt obſerve, that ſuch of them as are light are very common in circulation both in Holland and Flanders, *in time of war*, when the balance againſt England is very great. But no ſooner was a new loan made in England during the laſt war, than all of them diſappeared. They were then returned to England value 1l. 1s. though during their circulation abroad they had paſſed at their weight of bullion only. As for the new and heavy Engliſh guineas, none can be found in circulation out of the kingdom; becauſe the foreign mints coin them down, as is deſcribed in the 8th chap. of this ſecond part. Theſe circumſtances have been all combined in this theory of money; but can it be ſuppoſed that after one reading only, any perſon can retain them?

elſe a part muſt remain unſold: but in the firſt caſe, a much ſmaller proportion will ſuffice; becauſe no ſooner has any one ſold the goods he has, than he buys from another what he has occaſion for; ſo that the ſame money circulates from hand to hand, in ſuch a manner, as were we to ſuppoſe every one of the thouſand perſons to ſell for the preciſe value of what he buys, every man would carry home the ſame ſum of money he had in his pocket on coming to market. Thoſe who begin by ſelling, will carry home their own coin; thoſe who begin by buying, will replace what they had with the coin of other people.

In proportion, therefore, to the trucks of commodities for commodities, money is the leſs neceſſary; and in proportion as people ſell in order to realize, coin is the more neceſſary. When hoarding was in faſhion; and when lending upon intereſt was little known, had alienation been as frequent as at preſent, the quantity of coin muſt have been much greater. At preſent nobody hoards, where lending at intereſt is lawful, except in nations where credit is precarious. This was the caſe in England about 1695, and is perhaps the caſe at preſent in France *. Hoarding from this motive is more hurtful than from any other: becauſe, at the ſame time that by preventing the lending of the coin of the nation, it deprives the public of a circulating value, it alſo prevents bullion from being lent by neighbouring ſtates, and from being carried to the mint by thoſe who have it at home. Whereas

* In 1760.

hoarding

hoarding from avarice has none of theſe inconveniences: and when credit is good, there will always be found coin ſufficient; becauſe a demand for it will always procure it.

Juſt as we can eſtimate a man's eſtate by the weight of his purſe.

Why is it thought by ſome that there is ſo little coin in England, in proportion to what there is in France? Does any man imagine that this is a mark of poverty? By no means. Let the government of England proſcribe the currency of paper money, the coin will quickly return; becauſe then it will be demanded. But at the preſent the paper ſupplies its place, and ſo it goes abroad in order to gain more; whereas in France it remains at home, and produces nothing. The wealth of a nation can no more be eſtimated by the quantity of its coin, than the wealth of private people by the weight of their purſe. Were a perſon, from this circumſtance, to calculate the wealth of the Britiſh courtiers aſſembled at the Groom Porter's, he would find himſelf groſsly deceived in his concluſions *.

* The gentlemen of the Critical Review (for July 1767, page 28.) make the following criticiſm on this paſſage:

"The author ſeems to think that there is more coin in France "than in England, but concludes, that this is no mark of the "poverty of the latter. He believes, that if the currency of "paper money was proſcribed, the coin of England would "quickly return, becauſe it would then be demanded. We "are here a little ſuſpicious that this writer is miſtaken in his "facts, in ſuppoſing more coin to be in France than in Eng"land; or in imagining (as we ſuppoſe he does), that the cur"rency of paper-money in England has baniſhed coin. We "are inclined to think that both thoſe facts are miſtaken; and "that an Engliſh merchant or financier of very moderate abi"lities, either of head or purſe, may inform him better. As to

paper

CHAP. VI.

Miſcellaneous Queſtions and Obſervations concerning the Doctrine of Money and Coin.

CHAP. VI.

IN deducing the principles of every branch of politics, it is of great importance, at ſetting out, to treat every one ſeparately; to avoid intricate combinations

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" paper credit, we can by no means admit that it baniſhes coin " out of England. It is rather an addition than a ſupplement " to currency; and though French and foreign authors have " raiſed many curious ſpeculations concerning the danger of " multiplying paper-money, yet an Engliſhman poſſeſſed of a " twenty-pound bank note, never can think his property pre- " carious as long as he can receive upon demand, for the ſame, " nineteen guineas and one ſhilling."

Before I make anſwer, I deſire, in complaiſance to thoſe gentlemen, that in the beginning of the 5th line of the preceding page, the following correction may be made: *Why is it thought by ſome that there is ſo little, &c.*

My reaſon for making this correction is, that in this place, I had no intention to affirm that there was more coin in France than in England; becauſe it is of no conſequence to my reaſoning whether there be more or leſs; and the gentlemen of the Critical Review, whoſe authority as to Engliſh matters of fact, I ſhould rely upon, inform me, *that an Engliſh merchant or financier of very moderate abilities, either of head or purſe, may inform me better.*

What I ſay in the ſame paragraph of the conſequence of proſcribing paper-money, I cannot ſo eaſily correct; becauſe this depends on a principle, the other is a fact.

Were paper-money proſcribed, how, as matters ſtand, could circulation be ſupported with the coin we have? If, therefore, there

binations of circumſtances; and to learn how to diſtinguiſh between the operations of the general principle in queſtion, and the influence of an accidental circumſtance, which may throw the deciſion of a particular caſe upon a principle different from that upon which our attention is fixed at the time. Let the combination and complication of circumſtances be ever ſo great, all and every one of them will conſtantly remain under the influence of one principle or other.

The great art, therefore, is to have the whole plan of the ſcience ſo ready at command, as to be able to apply every principle of it to the caſe propoſed.

From this we diſcover of what importance it is to be exactly informed as to facts, and how utterly inſufficient the beſt theory muſt be in the hands of any perſon, who is not at the ſame time a thorough practitioner in the political ſcience.

In treating of the application of principles to particular caſes, we muſt conſtantly go upon this hypotheſis, that in the caſe propoſed there are no unknown circumſtances, which may be repugnant

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there be any Engliſh coin abroad, it would, from this proſcription, acquire ſuch an additional value in England, as would quickly bring it home. Paper-money without doubt renders coin leſs neceſſary in circulation: but I don't ſay it baniſhes coin; becauſe this expreſſion carries a meaning with it, which implies a hurt done to a nation. I ſay the coin goes abroad in order to gain more; and certainly, thoſe who have read this work with the leaſt attention, will never ſuſpect me to be an enemy to paper-money.

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to the exact combination of thoſe which have entered into our ſuppoſition.

The uſe of a miſcellaneous chapter at the end of a ſubject.

The uſe, therefore, of a miſcellaneous chapter, after the deduction of the general principles is over, is to ſerve as an exerciſe upon them. This is done by introducing queſtions which may tend to illuſtrate or explain the matters already treated of, and which have not been introduced in the body of the work, for fear of rendering combinations too complicated, and of drawing the attention from the main object of inquiry. When a particular appearance, alſo, ſeems to contradict a known principle, this appearance may here be analized, and the peculiarity of the caſe pointed out, and ranged under the principle which influences it. Numbers of objections alſo occur to readers of ſuch inquiries, and which even naturally occur to the author himſelf, although he be obliged to take no notice of them at the time, for fear of interrupting his ſubject; theſe may properly find a place in a ſubſidiary chapter. It is, however, to no purpoſe to attempt to exhauſt any political theory. In this ſubject the combinations of circumſtances are infinite; and therefore people muſt content themſelves with deducing all the principles by which thoſe before them may be reſolved, leaving the reſt to the reader's ingenuity.

Queſt. 1. Why does the doctrine of money appear ſo intricate?

QUEST. I. The firſt queſtion I ſhall propoſe for illuſtrating this ſubject ſhall be, Whence it comes to paſs that the doctrine of money is ſo extremely difficult and involved?

Anſw. Becauſe it is perplexed with jargon.

ANSW. This I aſcribe chiefly to the introduction of a money-jargon, employed by people who have had

had the management of mints, or who have been practical merchants, without knowing any thing of the theory of their buſineſs.

The denominations of coin are confounded with the intrinſic value of it.

As long as money went by weight, and was conſidered as gold and ſilver bullion, the whole doctrine of it remained clear and intelligible: but the introduction of a numerary value, or denominations of money of accompt, ſometimes attached to one quantity of the metals, ſometimes to another; and the intereſt of Princes, which made them endeavour to perſuade their ſubjects that the ſtamp of the coin was ſufficient to give a value to it; have both introduced an unintelligible language, and have really involved the ſubject in ſo many extraneous circumſtances, that, when we conſider every thing, the perplexity is not ſo much to be wondered at.

I ſhall now endeavour to reduce theſe perplexities under ſome general heads.

The terms metal, money, coin, bullion, and price, are all conſidered as ſynonimous.

The firſt is, confounding ideas quite different in themſelves. The terms *gold* and *ſilver*, *money of accompt*, *coin*, *bullion*, and *price*, are often underſtood and made uſe of as ſynonimous, although no things can be more different.

What is meant by *metal*.

The terms *gold* and *ſilver* ſhould convey to us no other idea than that of pure phyſical ſubſtances.

What by *money*.

That of *money of accompt* repreſents an invariable ſcale for meaſuring value.

What by *coin*.

Coin conveys the idea of the public authority aſcertaining the exact proportion of fine and alloy in a mixed metal, and the realizing, in a determinate weight of it, the invariable ſcale of money, ſometimes correctly, ſometimes incorrectly.

Bullion

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What by *bullion*.

Bullion carries the idea of certain determinate mixtures of the metals, commonly aſcertained by ſome public ſtamp or other, and drawing their value exactly from the proportion of the fine metals they contain, the workmanſhip being conſidered as of no value.

What by *price*.

Price, again, when conſidered as conſiſting in coin, is a more complex idea ſtill. In it are comprehended the value of the metals; the authority of the ſtamp for the currency; the actual value of the coin as a manufacture, above the value of it as a metal; the common and univerſal equivalent of all things alienable; and the mean value of the currency of which *price* is ſuppoſed to contain exact aliquot parts, when perhaps it does not.

The ideas, therefore, of *gold* and *ſilver*, of *money*, of *coin*, of *bullion*, and of *price*, are all different; they are commonly confounded, both in ſpeaking and in writing: from this ariſes the firſt cauſe of perplexity.

The abuſe of the terms *riſing* and *ſinking*, and inaccuracy of ſpeech.

The ſecond is owing to the common method of eſtimating the value, and the proportions between *gold* and *ſilver*; *coin*, and *bullion*; *money* and *merchandize*. The terms uſually employed to expreſs ſuch relations are, *riſing* and *ſinking*, or the like: people employ theſe terms, without previouſly agreeing upon the thing which they are to conſider as the fixed. The value of one of the precious metals is conſtantly relative to that of the other; and yet, without attending to this, we ſometimes conſider the gold, and ſometimes the ſilver, as the common meaſure; and while one is talking of gold as a common meaſure, the perſon he talks

to

to is conſidering it perhaps as the thing meaſured. This inaccuracy, in ſuppoſing ſometimes the one as the fixed, and ſometimes the other, involves us in great obſcurities; eſpecially when we ſpeak upon ſuch matters with thoſe who have not diſtinct ideas on the ſubject: and if three or four people be engaged in a converſation upon money, every one uſing the ſame term in a different acceptation, the confuſion becomes inextricable.

In like manner, when we ſpeak of coin and bullion, that of the two ought to be conſidered as the fixed which changes its proportion of value the leaſt with reſpect to all commodities.

Were prices attached to grains of ſilver and gold, bullion ought in that caſe to be conſidered as fixed; but as they are more attached to the denominations of the coin, coin ought to be conſidered as fixed.

Prices attached to denominations of coin.

In the next place, in ſpeaking of coin and commodities, we ſay, for example, that the impoſition of coinage ſinks the price of commodities. We do not, in this caſe, ſpeak correctly; becauſe if any thing ought to be conſidered as fixed, it is the relative proportion of value between the different ſorts of commodities. In this caſe, therefore, I think it would be more proper to ſay, that coinage raiſes the value of coin, than that it ſinks the value of commodities.

Coinage raiſes the value of coin, is a more proper expreſſion than *Coinage ſinks the price of commodities.*

To prevent the ambiguity of ſuch expreſſions from occaſioning confuſion, without departing too far from common language, I have frequently ſpoken of commodities as riſing and ſinking in their values with reſpect to coin; but I have at the ſame time obſerved the influence which this riſing and ſinking

How to avoid ſuch ambiguities in ſpeech.

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has upon the riſing and ſinking of the value of the pound ſterling realized in it.

A caſe which cannot be reſolved by this theory.

I have not, however, concluded with equal certainty that the riſing and ſinking in the value of bullion, *with reſpect to coin*, ought to imply any change upon the value of the money-unit; becauſe I have not been able to determine whether prices ought to be conſidered as moſt attached to the denominations of the coin, or to the grains of the metals: except indeed in one caſe, to wit, when the quantity of the metals comes to be actually augmented or diminiſhed in the coin. In this caſe, I have not heſitated to decide that, ſooner or later, the influence of trade muſt operate a riſe or a fall in the current value of the ſpecie, which will be marked by an apparent riſe or fall in the price of all commodities.

In ſpeaking we do not diſtinguiſh between pure metal and that which is mixed with alloy.

Thirdly, Our comparing the value of ſilver ſometimes with the pure metal, ſometimes with that compounded with alloy, involves us frequently in a language which is hardly to be underſtood.

Says one, a pound of ſilver, troy, is worth 67 ſhillings. He means a pound of fine ſilver. We in England, ſays another, coin our pound troy of ſilver into 62 ſhillings. He means the pound of ſtandard ſilver, which contains 18 pennyweights of copper. Says a third, our pound of ſilver, which we coin into 62 ſhillings, is not worth 57*s.* 6*d.* He underſtands ſhillings of fine ſilver of the ſame weight with thoſe of ſtandard ſilver. Another affirms, that an ounce of ſtandard ſilver, which at the mint, and in the coin, is worth no more than 5*s.* 2*d.* is worth in the market 5*s.* 6*d.* He means, that

that one muſt pay at this rate for ſilver bullion, when it is purchaſed with over-rated gold. At laſt comes Mr. Cantillon, who, as a proof of the decline of the Engliſh commerce, affirms to us, in his Analyſis of Trade, p. 133. that both ſilver and gold bullion are dearer in the London market than in the coin: he might have diſcovered the cauſe of this from the lightneſs of the gold and ſilver currency at the time he wrote; ſince the phænomenon could proceed from nothing elſe: the new guineas muſt then have been ſent abroad. Says a Frenchman, one of our crowns of 3 livres, which paſſes for 60 ſols, is intrinſically worth no more than $56\frac{1}{2}$ ſols. He means that the fine ſilver it contains is worth no more than $56\frac{1}{2}$ ſols, according to the mint price of the fine metals.

Of the abuſe of terms relative to the denomination of coins.

Fourthly, Another cauſe of perplexity in the money-jargon, is the prodigious abuſe of the terms which expreſs the denominations of the coin, or the numerary unit.

French hiſtorians write familiarly of ſums of money in livres and crowns, through all the ſtages of the monarchy. Engliſh writers (for the moſt part) do the ſame, in ſpeaking of pounds ſterling. Nothing however is more different than the ideas expreſſed by the ſame term.

This illuſtrated by an example.

Were any perſon, talking of lengths and diſtances, to uſe the word *foot*, ſometimes to ſignify *yard*, ſometimes *perch*; or to uſe the word *mile*, to ſignify ſometimes *league*, ſometimes *inch*, and ſometimes *fathom*; who could comprehend one word of his diſcourſe concerning the matter? Should we not

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even laugh at ſuch a perſon, for pretending to inform us of any thing concerning lengths or diſtances.

If any change be made upon the value of the money-unit of a country, which is called a pound; in propriety of language, it can no more be called a pound, after the change, than it can be called a rhinoceros.

Farther obſcurities from the abuſe of language.

Fifthly, Another reaſon for the obſcurity of money-jargon, is the manner in which writers expreſs themſelves, when they ſpeak of variations in the value of money. Upon this occaſion, ſays one, the King raiſed the money 5 *per cent.* What does this mean? No man living can underſtand the expreſſion; becauſe it may ſignify, that he raiſed either the denomination of the coin, or the value of the unit. If he raiſed the coin, he debaſed the unit: if he ſunk the coin, he raiſed the unit. A crown of 6 livres is a coin; a livre is the unit. If it be ſaid that the 6 livre piece is raiſed; this is as much as to ſay, it is made to be more than 6 units: conſequently, as the ſilver in the piece does not change its weight, it follows, that the unit, or money of accompt, is diminiſhed. On the other hand, if it be ſaid that the livre is raiſed, it implies that the crown, which contained 6 livres, is made to contain leſs than 6 units: therefore, the value of the unit is raiſed; that is, it is made to contain more ſilver than before.

How to avoid ſuch abuſe.

Writers, therefore, to be diſtinct, ought never to mention theſe matters, without removing the ambiguity, in favour of readers of all denominations. As for example: The King raiſed his coin, and debaſed his money of accompt. For this reaſon

ſon the French expreſſion is good, and eaſily underſtood; *augmenter la valeur numéraire des eſpèces*, is liable to no obſcurity.

There are alſo two terms uſed by French writers, which appear ſynonimous, and yet they are directly oppoſite; AFFOIBLISSEMENT, *et* DIMINUTION *de la monnoie*. Such terms are perplexing, and ought either to be avoided, or conſtantly explained. The firſt ſignifies the coining of the ſpecie of the ſame denomination lighter in the metals than before; the laſt ſignifies the lowering the denominations of the coin already made. The firſt therefore diminiſhes, the ſecond increaſes the value of the unit, which is the livre.

QUEST. II. What is the difference between the effects produced by raiſing the value of the coin by the impoſition of coinage, and raiſing the denomination of it? This queſtion is propoſed as a further mean of rendering the money-jargon intelligible.

Queſt. 2. What is the difference between raiſing the value of coin by impoſing coinage, and raiſing the denomination of it?

ANSW. The impoſition of coinage, when it gives an advanced value to coin above the metals it contains, is very different from that advanced value, which the coin appears to receive when the Sovereign arbitrarily raiſes the denomination of it; or as the French call it, when he augments its numerary value.

When the impoſition of coinage gives an advanced value to the coin above the bullion it contains, this advanced value becomes real, and extends itſelf to foreign nations; that is to ſay, the coin, ſo augmented as a manufacture, muſt be bought with more foreign coin than formerly. But when the denomination, or numerary value, is augmented,

Anſwer. The firſt is real, and affects foreign nations; the other does not.

BOOK III.

the ſame piece (though augmented in denomination) is bought by ſtrangers with the ſame quantity of their coin as before. An example will make this plain.

Proved by an example.

Let us ſuppoſe the coin in France, in war time, to be reduced to the value of bullion, and that the value of a crown of three livres, by the courſe of exchange, ſhould be then worth 29½ pence heavy ſilver ſterling money; if the balance of the French trade ſhould become favourable in general, and that coin ſhould become 8 *per cent.* dearer than bullion in the Paris market, then the price of the crown of three livres will riſe 8 *per cent.* upon the London exchange above 29½ pence heavy ſilver ſterling money, although there be reſpectively no balance to be paid in bullion either by England or France. But let the King of France ordain, that the crown of three livres ſhall be raiſed in its denomination to ſix livres, and let the coin at that time be ſuppoſed to be at par with bullion in the Paris market, the crown of three livres will then be paid as formerly with 29½ pence: that is to ſay, the augmentation of the denomination will have no effect upon the value of the coin in other countries; whereas the augmentation produced by the operations of trade, in conſequence of the impoſition of coinage, is a real augmentation, ſince it extends to foreign nations.

How the arbitrary method of raiſing the denomination of coin affects prices at home.

Now it is certain and evident, that the augmentation of the numerary value has the undoubted effect of ſinking the value of the numerary unit realized in the coin; we ought therefore on ſuch occaſions to ſay, that the King has diminiſhed the value of the livre, and not that he has raiſed the value of the coin. But the abuſe of language has

made people conſider the livre as the thing fixed, and therefore the coin is conſidered as the thing which riſes and ſinks. The conſequence of this is, to introduce another abuſe of language. People ſay, that the prices of commodities riſe: I aſk, With reſpect to what? Not with reſpect to the pieces of the coin, but with reſpect to the denominations they carry: that is to ſay, with reſpect to livres; although the livre be conſidered as the thing fixed. There is, however, a reaſon why people ſhould expreſs themſelves in this improper manner, which proceeds from the perplexity and confuſion of their ideas concerning money.

When the King of France arbitrarily changes the numerary value of his coin, commodities are found, by univerſal experience, to ſtick ſo cloſely to the denominations of it, that people are apt to think that it is the King's will and pleaſure, and not the metal of which the coin is made, which gives it a value. But commodities depart from theſe denominations by degrees, and fix themſelves a-new at a determinate value of the fine metals, proportioned to what they bear in foreign nations. This is brought about by the operations of commerce; and conſequently, the riſe of prices not taking place till ſome time after the numerary value of the coin has been augmented, people accuſtom themſelves to ſay, that the augmenting the denomination of the coin raiſes prices, and that diminiſhing the denomination ſinks them. But did all prices ſtrictly adhere to the grains of bullion contained in the coin, and not to the denominations of the numerary value, then language would change, and nobody would ſpeak

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about the riſing and ſinking of prices, but of the riſing and ſinking of livres, ſols, and deniers.

I hope, from what has been ſaid, that the difference between raiſing the value of the coin by impoſing coinage, and raiſing the numerical value of it by augmenting the denomination or numerary value of it, is perfectly underſtood. The firſt raiſes the value of the numerary unit, by giving a real additional value to the coin as a manufacture: the laſt raiſes, for a while, the value of the numerary unit; merely becauſe the price of commodities, being attached to the denominations of money of accompt, ſtick to them, until the operations of trade reduce them to their true principle.

Whenever, therefore, the terms *riſing* and *ſinking* are applied to value, the thing which is ſaid to riſe, is ſuppoſed to be the moveable; and the thing it is compared with, or with reſpect to which it is ſaid to riſe or ſink, is ſuppoſed to be the term fixed. Every one, therefore, who reads books upon this ſubject, ought, upon all occaſions where there is mention made of riſing and ſinking of the price of the gold, ſilver, bullion, coin, exchange, or commodities, conſtantly to caſt his eye upon the thing which is ſuppoſed to be fixed, and retaining this in his mind, he will preſerve his ideas diſtinct.

Queſt. 3. How will the impoſition of coinage affect the creditors of Great Britain?

QUEST. III. Let us ſuppoſe that the impoſition of coinage, when properly laid on, will not raiſe the value of the pound ſterling; and conſequently that it will not affect the domeſtic intereſts of Great Britain: it may be aſked, What influence this impoſition will have upon the intereſt of her foreign creditors, ſince it muſt affect exchange?

ANSW.

ANSW. The foreign creditors of the nation will thereby be gainers, provided their intereſt continue to be paid in denominations of pounds ſterling, and not in a determinate number of grains of the fine metals, as was propoſed to be done in the fourteenth chapter of the firſt part. The reaſon is plain: upon all occaſions, when coin carries an advanced price above bullion, thoſe who have funds in England will gain upon exchange. This gain will nowiſe, I think, be at the expence of the nation, but at the expence of thoſe foreigners who have occaſion for paper draughts upon London.

Anſw. If they continue to be paid by denominations, they will gain; if by weight of metal, they will not gain, nor will they loſe.

A creditor of England (in Holland I ſhall ſuppoſe) draws for a thouſand pounds ſterling (the intereſt of his Engliſh fund); a Dutchman who owes a thouſand pounds ſterling in London, buys his bill: muſt he not pay the creditor of England, not only the intrinſic value of the bullion contained in the thouſand pounds ſterling, but alſo the difference between the thouſand pounds ſterling in coin, and the bullion it contains, according to the price of it in the London market? This difference then, received by the proprietor of the Engliſh funds, is clear gain to him, and is no loſs to the nation; it is a loſs to the Dutchman.

Proved by an example.

Farther, every Dutchman who pays his debts to prople reſiding in England, muſt ſuffer the ſame loſs; that is, he muſt pay the coinage, which at preſent the ſtate makes him a preſent of.

From this I think it is plain, that while the balance of trade is favourable to England, or at par, all remittances made by foreigners, to pay their Engliſh debts, muſt pay the coinage.

The

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The operation of this principle has not a little contributed to facilitate the eſtabliſhment of the French credit.

How the impoſition of coinage advances the credit of France.

When France borrows, eſpecially in war time, foreigners can remit to Paris the money they lend nearly at par with bullion. Then they pay little or no coinage; and when peace is reſtored, the coin riſing in its value, they gain annually, at no loſs to France, ſeveral *per cent.* upon their draughts for their intereſt, to wit, all the advanced value of the coin.

Queſt. 4. Is the plan we have propoſed effectual towards preſerving the pound ſterling invariable?

QUEST. IV. Is the preſerving of the pound ſterling at the mean value of a determinate weight of fine gold, and fine ſilver, a ſure method of realizing the unit of money of accompt, ſo as to preſerve it at all times invariable?

Anſw. No; but ſeems to be the beſt relative to material money.

ANSW. I apprehend it is not; although it ſeems to be the beſt that can be deviſed, upon ſuppoſition that the metals are to be made uſe of, as the moſt proper ſubſtance for realizing the ſcale.

I have ſaid, in the beginning of this book, that the uſe of the ſcale was to meaſure the relative value of things alienable. Now the metals themſelves being of the number of things alienable, and their proportion of value being nowiſe determined, but liable to augmentations and diminutions, as well as that of grain or any other commodity, no ſcale which is attached to them, can meaſure any thing but their weight and fineneſs, and conſequently can be no permanent meaſure for any thing elſe.

A ſcale of value realized in metal can never be exact; becauſe the metal itſelf varies in its value.

Did the price of commodities riſe and fall with reſpect to grains of the fine metals, in the ſame proportion that it riſes and falls with regard to the commodities themſelves, the ſcale would be exact; but if the grains of metal can acquire an increment,

and

and a diminution of value, from circumſtances entirely peculiar to themſelves, ſuch circumſtances muſt render the ſcale they compoſe inaccurate with reſpect to the price of commodities.

1. From the manufacturing of it.
2. From the intereſt of money.
3. From the manners of a people.

Now we have ſeen how the impoſition of coinage enhances the value of coin. The riſing and ſinking of the intereſt of money has the ſame effect. The viciſſitudes to which credit is liable have a prodigious influence upon the value of the metals. The manners even of a people, which can be determined by no principle, operate the ſame effect. When people, for example, are given to hoarding, the metals come to be demanded with more eagerneſs, that is, the competition to acquire them is greater; conſequently the value of them with reſpect to all commodities, is greater than when they are purely conſidered as money of accompt.

The only exact ſcale of value is that which can meaſure the metals like every other commodity.

That ſcale, therefore, is the only juſt one, which meaſuring the value of the metals, like that of every thing elſe, renders every individual of a ſtate equally rich, who is proprietor of the ſame number of denominations of it; whether his wealth be in gold, ſilver, or any other property or commodity.

Explanation of this proportion

Now I agree that, at any given time, this is the caſe when the ſcale is properly attached to the metals; but it is not permanently ſo. A determinate property in land bears ſometimes a greater, ſometimes a leſs proportion to a determinate property in money. When the ſcale is attached to the metals, he who is proprietor, for inſtance, of a thouſand denominations in coin, becomes richer or poorer, according to the fluctuation of the value of this commodity, the metals. Whereas when the ſcale is not attached

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attached to any ſpecies of commodity, nothing can change his proportion of wealth, except the augmentation or diminution of the value of the whole ſtate. This idea is not ſo diſtinct as I could wiſh: let me illuſtrate it by an example.

by an example,

Suppoſe then three partners (A), (B), (C). They form a common ſtock by equal ſhares; (A) contributes a thouſand pounds ſterling in current ſpecie, (B) the ſame value in corn, (C) a like value in broad cloth. Let me ſuppoſe the meaſures of theſe commodities to be expreſſed by their proper denominations; the metals by grains, the corn by buſhels, the broad cloth by yards. I ſuppoſe that at the end of the year 20 *per cent.* is gained upon each article of ſtock; that is 20 *per cent.* increaſe upon the grains of metal, 20 *per cent.* on the buſhels of grain, 20 *per cent.* on the yards of broad cloth. This ſuppoſition may be allowed. I aſk, if it would not be a much more equal way of dividing this profit, to reduce the whole value of the grains, buſhels, and yards, to the then actual value in pounds ſterling, and ſo to divide; than if every man were to take his 20 *per cent.* out of that commodity he had furniſhed to the co-partnerſhip? This method of reducing all to a common meaſure, is what I underſtand by an ideal ſcale of money of accompt.

and by an application to the bank of Amſterdam.

The bank of Amſterdam pays none in either gold or ſilver coin, or bullion; conſequently it cannot be ſaid, that the florin banco is attached to the metals. What is it then which determines its value? I anſwer, That which it can bring; and what it can bring when turned into gold or ſilver,

ſhews

ſhews the proportion of the metals to every other commodity whatſoever *at that time:* ſuch and ſuch only is the nature of an invariable ſcale.

How the locking up the coin in that bank renders the value of it more ſtable.

I confeſs I am unable to analize all the complicated operations of trade in ſuch a diſtinct manner as to demonſtrate how the univerſal circulation of value, over the commercial world, ſhould operate this effect; and how burying, as it were, a quantity of gold and ſilver in a vault, ſhould give a more invariable worth to a florin, the value of which depends upon it, than if the metal itſelf were to circulate in coin.

Thus far, however, I think I underſtand, that the impoſſibility of profiting of the *riſing* value of one of the metals (which is buried) will be compenſated at all times in the avoiding of the loſs upon the other, which ſinks in its value.

Farther, burying the coin both in gold and ſilver is in a manner forming theſe two metals into one maſs; this takes away the variation in the proportion of their value, which principally diſturbs the uniformity of their operation as a ſcale. They cannot be conſidered as commodities, becauſe they are taken out of commerce entirely; yet the permanent value of them remains, and upon this the bank money is ſecured; though it be not realized in it. In banks which pay in coin, the caſe is different; becauſe the denominations in their paper are liable to all the fluctuations incident to the coin in which they pay. The bank money, therefore, of Amſterdam is pure money of accompt, and has nothing of merchandize in it from the metals in the vaults. The paper of all banks which pay, riſes

and

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and falls in value according to the currencies in which their notes are acquitted.

I leave the farther elucidation of this myſterious affair to people of better capacity, and of more extenſive knowledge in thoſe matters than I can pretend to.

To conclude; no material money, let it be contrived as it will, is exempted from viciſſitudes in its value as a metal. This is proved by the univerſal riſings and ſinkings in the price of commodities, in conſequence of circumſtances peculiar to the coin. Theſe riſings and ſinkings of prices, I ſay, are properly the riſings and ſinkings of the value of the coin, and this fluctuation again in the value of the coin, is a lengthening and contracting of the equal parts of the ſcale of value which is attached to it. Now there is no ſuch thing as any viciſſitudes in the prices *of all commodities* with reſpect to bank money, although nothing is more common than fluctuations in agio, with reſpect to current money; conſequently, bank money has a property and a ſtability in it, which no material money is capable of acquiring, and for this reaſon it is preferable to it, and is properly conſidered as the thing fixed.

Queſt. 5. Will not the impoſition of coinage in England frequently ſtop the mint? Anſw. Certainly; when the balance of trade is unfavourable.

QUEST. V. Will not the impoſition of coinage in England prevent, upon many occaſions, the carrying of bullion to be coined at the mint, when it would be carried were the coinage free?

ANSW. Without all doubt. When coinage is free, every man who imports bullion runs with it to the mint: there it is proved, cut, and ſtamped to his hand, and at no coſt. Now to what purpoſe all this expence? why carry bullion to be coined, while

while the balance of trade is againſt a nation, ſince ſuch bullion muſt be re-exported, together with a part of the national ſtock of the metals? Beſides, the coining of it gratis adds not the ſmalleſt value to the metals conſidered as a manufacture; conſequently, upon the exportation, the whole price of coinage is entirely loſt, and the national ſtock of coin is not thereby augmented; nor would it be augmented while trade is unfavourable, were five hundred mints kept conſtantly at work.

The impoſition of coinage, therefore, has theſe good effects. Firſt, it prevents bullion from being coined, except when ſuch coined bullion can remain in the country and augment the national ſtock of coin. Secondly, as has been ſaid, it gives an additional value to the coin, even in foreign countries, and thereby prevents it from being melted down abroad, in order to be re-coined in other mints, and to augment the ſtock of coin in rival nations.

But this is an advantage to England which France now enjoys.

I believe nobody ever imports louis d'ors to be coined in the Engliſh mint (notwithſtanding the benefit there is in importing gold into England from France, where the proportion of the metals is lower), yet nothing is more common than to carry guineas to every foreign mint, at the bare price of bullion. This is the reaſon why ſo little Engliſh coin, and ſo much French coin, is found in circulation in countries foreign to both theſe nations.

Louis d'ors, in conſequence of the high impoſition of coinage in the French mint, paſs current, almoſt every where, for more than their intrinſic value, even when compared with the coin of the very

The coin of France paſſes in other nations above its value as a metal, and returns to France unmelted.

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very nation where they circulate without the ſanction of public authority; and when this authority regulates their currency, according to their intrinſic value, ſuch regulation has the ſame effect as forbidding them altogether; becauſe the moment a money-jobber lays his hand upon them at the ſtatute value, he circulates them no more; but ſends them either back to France, or to ſome country where they paſs, by a conventional value, above their intrinſic worth. Thus louis d'ors, as well as all French coin, are effectually prevented from being melted down, and ſo ſoon as the balance of the French trade becomes favourable, they return home.

Queſt. 6. Is not this return a loſs to France?

QUEST. VI. Is not this return of louis d'ors to France, upon the balance of their trade becoming favourable, a loſs to France? ſince, in this caſe, the balance of their trade is paid with a leſs weight of bullion than it would be paid with, were their coin worth no more than bullion; and ſecondly, becauſe when the coin is exported to pay the balance, it is exported upon the footing of bullion, and when it returns it is paid back at an advanced price.

Intricacy of this queſtion.

The difficulty of reſolving this queſtion proceeds from the complication of circumſtances in which it is involved; and the intention of propoſing it, is to ſhew how neceſſary it is, in practice, to combine every circumſtance in political problems.

Reſolution of it.

I ſhall therefore obſerve, that ſince, at all times almoſt, French coin paſſes (out of France) for more than its intrinſic value, it is not well poſſible to ſuppoſe that, even during a wrong balance of the

the French trade, their coin can never fall ſo low as the price of bullion; conſequently the French exporting their coin, upon ſuch occaſions, above the value of bullion, are gainers of all the difference. This compenſates the loſs (if any they ſuſtain) upon the return of their coin. In the ſecond place, when the balance becomes favourable for France, and when there is found a profit in ſending back the French coin, the demand made for it, by thoſe who want to pick it up in foreign countries, raiſes the value of it in circulation; this again favours the trade of France, and makes the difference of paying what one owes to France in bullion at the market price, or in louis d'ors at the advanced value, very inconſiderable; which conſequently prevents merchants from finding any great advantage in ſending back large quantities of it.

Beſides, when the coin does return, although it have an advanced value, it has no advanced denomination. It was exported according to its numerary value, and it returns upon the ſame footing. Farther, when the coin returns as the price of French merchandize, for the ſame value it bears in the country, I cannot diſcover a principle which can make even this appear to be a loſs to France. The loſs therefore muſt be upon the exportation of the coin, not upon the return of it. But we have ſaid that if it be exported at a higher value than that of the bullion it contains, this muſt imply a profit to France. Conſequently, the remainder of loſs upon exportation muſt be apparent, not real: It is a loſs to Frenchmen, who, in exporting the

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coin below the full value of it (coinage included), loſe a part of what they had paid the King for the coinage; that is to ſay, they loſe it ſo far as they do not draw it back *in full* from the foreigners to whom they owe. But it is no loſs to France: on the contrary, it is a gain as far as any part of the coinage is drawn back; and this is the caſe as oft as the coin is exported above the price of bullion.

It is no loſs to France.

Another view of this queſtion.

Or in another view.—This going out and returning of the French coin, may be conſidered as a loſs to France in this reſpect, that when the balance of her trade is againſt her, when her coin loſes of its advanced value in payments made to ſtrangers for the price of foreign commodities, thoſe who conſume ſuch commodities in France, muſt conſume them at an advanced price to themſelves, but at no additional profit to foreign ſuppliers; becauſe as to theſe laſt, the French coin, with which we ſuppoſe the commodities to be paid, having loſt of its value every where, cannot then purchaſe ſo much as at another time, and conſequently is not worth ſo much to the foreign ſupplier who receives it. For the better underſtanding of what has been here ſaid, attention is to be had to the difference there is between a *national* loſs, and the loſs ſuſtained by the individuals in a nation. The balance of trade is the national profit, or the national loſs; but the gains or loſſes of individuals, may be compatible with either a right or a wrong balance of the trade of the nation to which they belong. This will be fully explained when we come to treat of exchange.

In this reſpect, therefore, France may be ſuppoſed to loſe upon exporting her coin, to wit, ſo far

far as ſhe conſumes foreign commodities at an advanced value; but then I ſay, that in this caſe France loſes the whole price of the commodities, not the advanced price only, becauſe ſhe loſes the balance of her trade. Abſtracted from that, I ſay ſhe loſes nothing. Who loſes then the advanced price? I anſwer, the conſumer of the commodity loſes it, and I ſay that nobody gains it. This is what, in the eighth chapter of the ſecond book, was called poſitive loſs, and it is owing to the annihilation of a part of the advanced value of the coin, which the operations of commerce have effected.

In theſe reſpects only can France be conſidered as a loſer upon exporting her coin: but in having it returned upon her, when at an advanced price above bullion, the loſs is nothing; becauſe the advanced price then is a real value added to the coin, and there is no manner of difference as to France, to receive, for the balance of her trade, an hundred pounds weight of her own louis d'ors, or an hundred and eight pounds of ſtandard gold bullion, at ſuch times as bullion is commonly carried to the mint; becauſe the one and the other weight of coin and bullion will anſwer the ſame occaſions both in the Paris market, and in moſt trading towns in Europe.

From theſe principles we may gather how effectually the impoſition of coinage muſt prevent the melting down of the coin, provided a ſufficient attention is had to preſerve the denominations of the coin in both ſpecies at the exact proportion of the market price of the metals.

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Queſt. 7. If by over-rating gold, the Engliſh loſe their ſilver, why ſhould not France, by over-rating ſilver, loſe their gold?

QUEST. VII. The two metals being valued by one another, if the Engliſh, by valuing the gold higher than the French do, occaſion the exportation of their ſilver, why ſhould not the French, by valuing their ſilver higher than the Engliſh do, occaſion thereby the exportation of their gold? And if the Engliſh, by over-rating their gold, prevent the carrying of ſilver to be coined at their mint, why ſhould not the French by over-rating their ſilver prevent the carrying of gold to be coined in their mint?

Anſw. Becauſe the Engliſh rate their gold above the value of it in *their own market*, the French do not ſo with their ſilver.

ANSW. The Engliſh over-rate their gold not only with reſpect to other nations, but with reſpect to the value of it in their own market; whereas the French preſerve, in their gold and ſilver coins, nearly the proportion between the metals as they are ſold in their own market.

In France nobody can profit by melting down either of the ſpecies, in order to ſell it, with advantage, as bullion; but in England, by melting the heavy ſilver coin, one may ſell it in London for more gold than the ſame coin not melted can purchaſe.

But here it is objected, that although the proportion between gold and ſilver, in the Engliſh coin, were ſet upon a par with that of the metals in the London market, ſtill one ſpecies may be exported with profit, provided the proportion be different in other nations.

There is little force in this objection: and were there any, it would be an additional argument for the impoſition of coinage; becauſe by this the exportation of either of the ſpecies, for the ſake of any

ſmall

ſmall difference which may ſometimes be found between the proportion of the metals in the different markets of Europe, would be prevented. This circumſtance however requires a more particular examination.

It is a principle in commerce, that the demand for any commodity raiſes the value of it; and every nation knows how to profit of a demand for what they have.

How is the proportion of the metals kept nearly the ſame in all European markets? Becauſe when home demand diſturbs the proportion, foreign trade brings it even again.

Whenever, therefore, one of the metals bears a value in one nation below what it bears in another, this under-value makes that ſpecies more demanded by ſtrangers, and conſequently it riſes in its value, even at home.

By this principle the proportion between the metals in European markets is kept nearly the ſame, and the ſmall difference which is found does not ſo much proceed from the demand of foreign trade, as from the taſte of the inhabitants. The foreign demand tends to make the proportion equal in all markets, and the internal demand for one metal preferably to another, is what makes it vary.

The carrying of the metals backwards and forwards is attended with riſque and expence. There is not, therefore, ſo much danger of a nation's being ſtripped of one of its ſpecies of current coin by ſuch a trade, as there is when the proportion of the market price of the metals is different, at home, from that obſerved in the coin; becauſe in the laſt caſe, every one may profit of the diſproportion, at the trifling expence of melting down the riſing ſpecies.

Coin of gold and ſilver ſhould be

From this we may conclude, that nations ought to regulate the proportion of the metals in their

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coin, according to the market price of them at home, without regard to what it is found to be in other nations; becauſe they may be aſſured, that the moment any difference in the market price ſhall begin to be profited of, that very demand will alter the proportion, and raiſe the market price of the metal ſought for by foreigners. While the coin, therefore, is kept at the proportion of the market at home, and while the denominations of both ſpecies are made to keep pace with it, it will be utterly impoſſible for one nation to hurt another by any traffic in the metals.

proportioned to the rate of the market at home,

We may farther conclude, that it is to no purpoſe for nations to agree by treaty upon a certain proportion between ſilver and gold in their coins; the market prices every where are what alone can regulate this proportion; and the only method to keep matters even between them, is to make the denominations in both ſpecies keep an equal pace with the price of the metals in their own market.

and nations cannot fix that proportion by any convention among themſelves.

Here it is farther objected, that were theſe principles juſt, there would not be found ſo great a diſproportion as there actually is, between the value of gold and ſilver in Europe, and in the empire of China.

Why is the proportion of the metals ſo different in England and Aſia?

To this I anſwer, that the principles are juſt; and that this difference proceeds from incidental circumſtances, which I ſhall now point out.

Firſt, then, the European trade hardly penetrates into that vaſt empire. Secondly, the lowneſs of the proportion between gold and ſilver is maintained by the high internal demand for ſilver in China. Thirdly, the India trade being every where in the

Anſwer to this.

hands of companies, there is not ſo great a competition between the ſellers of ſilver in the Chineſe market, as if that trade were open to every private adventurer; conſequently the price of it is not ſo liable to be diminiſhed. And laſt of all, the expence of carrying ſilver thither, and the long lying-out of the intereſt, would put a ſtop to the trade, were the proportion between the metals to riſe in China. This prevents competition ſtill more between the different European companies, and conſequently prevents the riſing of the proportion.

I need not obſerve, I ſuppoſe, that the term *riſing of the proportion* denotes the riſing of the price of ſilver; as when being at that of 1 to 10, it comes, for example, to that of 1 to 11. This term has been already explained.

QUEST. VIII. Is it the intereſt of Princes to debaſe the ſtandard of their coin?

Queſt. 8. Is it the intereſt of Princes to debaſe the ſtandard of their coin?

ANSW. This queſtion has been already touched upon in the twelfth chapter of the firſt part. Perhaps ſome farther obſervations upon it may not be found ſuperfluous.

In order to ſet it in a fair light, I ſhall begin by reducing it to its ruling principle.

The queſtion turning entirely upon the *intereſt* of Princes, I ſhall take no notice of the iniquity of ſuch a meaſure with reſpect to their ſubjects; but ſhall confine it purely to the *intereſt* Princes may have in exerciſing this branch of prerogative.

I anſwer then, as I have hinted above, that it is their *intereſt* to debaſe the ſtandard of their coin when they are in the ſituation of debtors; and it

Anſw. It is their immediate intereſt to debaſe it when they

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are debtors, and to raiſe it when creditors; but always unjuſt.

is their *intereſt* to raiſe the ſtandard when they are in the ſituation of creditors.

Debaſing the ſtandard I have explained to be the diminution of the intrinſic value of the unit below what it was before, either by raiſing the denomination, augmenting the alloy, or diminiſhing the weight of the coin.

Now ſince Princes pay their ſervants by denominations, that is, by money of accompt, the more they augment the denomination of the coin they poſſeſs, the more they gain upon what they have at the time. But they loſe proportionally upon their revenue ever after; becauſe the rents and duties levied on their ſubjects being alſo paid by denominations, the Prince loſes every year on his income proportionally what he had gained upon one operation.

From this we may draw a principle, that Kings who have begun to debaſe the ſtandard, ought to go regularly on every year, as long as they find themſelves in the ſtate of debtors; and when they come to alter their ſituation, and become of the claſs of creditors, it is then their intereſt to raiſe the ſtandard. This muſt be a little further explained.

Who are debtors and who creditors, and how Princes who incline to rob their ſubjects may avoid robbing themſelves at the ſame time.

It has been abundantly proved, that increaſing the denomination, or debaſing the ſtandard, muſt conſtantly be advantageous to the whole claſs of debtors; conſequently, Princes, who are upon certain occaſions obliged to lay out more than they receive, may then be conſidered as being of this claſs. Whoever receives from another what the other is obliged to pay him, may be conſidered as a creditor;

a creditor; whoever gives to another what the other is entitled to demand of him, may be conſidered as a debtor. Thoſe, therefore, who both pay and receive, are, upon the whole, either debtor or creditor, according to the ſide which preponderates. He who is obliged annually to pay more than he annually receives, muſt be obliged either to run in debt, to borrow, or to take from a fund already formed (a treaſure). The maxim therefore is, firſt to fill the exchequer with the annual income; then to debaſe the ſtandard; and laſt of all to pay. The debts paid, and the current expence brought within the income; then is the time to raiſe the ſtandard. This operation is like that of the ram; he runs back in order to advance again with more force.

Example of a Prince who is now employing this engine againſt his enemies, not his ſubjects.

The great maſter of government and political œconomy well underſtands this doctrine. He is now ſpending his treaſure, not his income. He is then in the ſtate of the debtors, and accordingly is regularly every year debaſing the ſtandard of the S——n coin. This debaſement, I ſuppoſe, regularly takes place after the contributions for the year are paid. So ſoon as the war is over, and this œconomical Prince ſhall return to the ſtate of creditor, he will, I ſuppoſe, ſuppreſs the currency of all this bad money, and reſtore the ſtandard: that is to ſay, he has during the war been ruining all the claſs of creditors in permanent contracts the (S——n nobility); and when the peace is reeſtabliſhed, their own Prince may indemnify them if he pleaſes by reſtoring the former value of the unit.

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unit. All ſudden revolutions are hurtful; but neceſſity has no law *.

This, in a few words, is, I think the anſwer to the queſtion propoſed. Princes have for ſeveral centuries, in almoſt every nation in Europe, been gradually debaſing the ſtandard of their money-unit; and the debts they have contracted during the debaſement have conſtantly been an argument againſt the reſtoring it. But had they firſt regulated all their debts upon the footing of the laſt debaſement, ſtipulating with their creditors that they were to be paid upon the footing of the then currency, that is to ſay, according to the French ſtile, *en cours du jour* of the ſtipulation; they then might, without any advantage to their creditors, and with great profit to themſelves, have reſtored the ſtandard, and ſo prepared the means of executing the ſame operation as before, upon a new emergency.

Writers againſt this practice have uſed wrong arguments to diſſuade Princes from it.

Thoſe who have written againſt this practice of debaſing the ſtandard, have made uſe of wrong arguments to diſſuade Princes from following ſuch a meaſure. They have firſt repreſented it as hurtful to their own intereſt. This we have ſeen is not always true. They have alſo endeavoured to prove that it is vaſtly prejudicial to commerce. This is the great point laboured by Dutot, in his *Reflexions Politiques ſur le Commerce;* but to very little purpoſe. All the facts and arguments he has produced to prove (by the courſe of exchange) that the variations made in France in the ſtandard value of their crown of three livres, did hurt to the trade of

* Written in the year 1760.

that

that nation, prove nothing at all, as it would be eaſy to ſhew, were this a proper place. The hurt done to manufactures is greater; but, in a trading nation, the eſtabliſhment of them being under the influence and direction of merchants, who are perfectly inſtructed as to every conſequence of ſuch alterations, the manufacturers they employ, after a very ſhort time, raiſe their prices to the full proportion of the increaſe in the denomination of the coin.

The proper arguments againſt it are three.

The real inconveniences which proceed from this exerciſe of power, may be reduced to three.

1. It diſturbs the ideas of a people with regard to value.

Firſt, It diſturbs the ideas of a whole nation with regard to value, and gives an advantage in all bargains, to thoſe of the ſociety who can calculate, over thoſe who cannot.

2. It either robs the claſs of debtors or of creditors.

Secondly, It robs the whole claſs of debtors when the ſtandard is raiſed; and it robs the whole claſs of creditors when it is debaſed.

3. It ruins credit.

Thirdly, It ruins credit; becauſe no man will borrow or lend, in a country where he cannot be ſure of receiving back the full value of his loan; or of being in a capacity of clearing himſelf by paying back the juſt value he had borrowed.

This laſt circumſtance will probably put an end to the practice.

This laſt circumſtance has overturned the whole ſcheme in France. Princes would go on debaſing their ſtandard as formerly, could they do it and preſerve their credit. But who will lend a ſhilling to a Prince if he ſuſpects he will pay him back, perhaps, with ſixpence? The Prince above mentioned does not borrow; and as he is the only one in this ſituation, he may debaſe his ſtandard: but others cannot venture upon ſuch a ſtep.

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Queſt. 9. What is the beſt form to be given to coin?

Difference between medals and coint.

QUEST. IX. What is the beſt form to be given to coin?

ANSW. The intention of coinage, *for circulation*, being to aſcertain the quantity of the fine metals in every piece, and not to repreſent the effigies of the ſovereign, we ſee a manifeſt difference every where between the impreſſions ſtruck upon medals, and thoſe upon the current coin: in the firſt, the head is raiſed, in the laſt, it is purpoſely made flat.

Of indenting the impreſſion.

Anciently, the impreſſion put upon ſome of the Engliſh coins was a croſs; which being indented upon the penny, inſtead of being raiſed, occaſioned theſe pieces frequently to be broken into four parts. This is ſaid to have given riſe to the denomination of farthings, or fourth parts. The indenting of the impreſſion upon the coin, is no doubt a preſervative againſt its wearing; but as it is liable to other inconveniences, and is ſo repugnant to cuſtom, it would be ridiculous, perhaps, to propoſe it.

I ſhall reduce, therefore, all I have to propoſe as a ſupplement to what has been ſaid already on this ſubject, to a very few obſervations.

The leſs the ſurface, the wearing is the leſs.

Firſt, The leſs ſurface any piece has in proportion to its maſs, the leſs it will wear in circulation; and as all coin is made cylindrical, the nearer it approaches to the cylinder, whoſe height is equal to its diameter, the leſs ſurface it will have. Coin therefore ought to be made thick, and for this reaſon louis d'ors are of a better form than guineas, as guineas are of a far better form than ducats. Were it eaſy to give the ſurface a ſpheroidal form on both ſides, rendering the coin thicker in the middle than at the edges, the ſurface would be thereby a little more diminiſhed.

Secondly,

CHAP. VI.

Secondly, The great credit of paper money in England, is a vaſt advantage in many reſpects. It renders coin leſs neceſſary. While this credit ſubſiſts, large payments will always be made in paper; and this renders the coinage of gold in large heavy pieces leſs neceſſary. The coin, therefore, in England, ought to be calculated for the eaſy changing of bank notes, not with a view to the making great payments in it. For this purpoſe, two and three pound pieces might be full as convenient as ſingle guineas, and half-guineas might be confined to a ſmaller number. Small denominations of gold coin lead to expence, and tend to raiſe the prices of ſuch commodities as people of faſhion pay immediately out of their own pockets. As for the ſilver, the ſame principles are to be obſerved. Crown pieces are very convenient in payments, and have a great advantage over ſhillings and ſixpences in point of ſurface. The practice in France of coining the greateſt part of their ſilver in ſuch pieces, abundantly ſhews how few of the leſſer denominations (that is ſhillings, &c.) are neceſſary for carrying on circulation.

The advantage of heavy pieces for the greater part of the coin; yet ſmall denominations are uſeful, in ſome caſes, for preventing the riſe of prices.

Thirdly, The copper coin of England is exceedingly bulky, in order to give it an intrinſic value. This makes many people aſhamed to carry it; conſequently increaſes expence, and raiſes the price of many things for the reaſon already given.

Mixt metal better than copper for ſmall denominations, as appears from the practice in Germany.

What inconvenience could there poſſibly be in making pence of a mixed metal of a much lower ſtandard than the other coin? The coin would be leſs bulky, and the intrinſic value might be preſerved. This is the cuſtom all over Germany. The lower

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lower denominations of the coin are all of different fineneſs. The ſtandard for what they call the *gros*; the 7, the 10, the 17, the 20 creutzer pieces, are all of different fineneſs; but ſtill in the ſame ſum, in whatever coin it be paid, according to the laws of the empire, there ought to be found the ſame quantity of fine ſilver. This enables them to coin pieces of very ſmall denominations; which have however the ſame intrinſic value with the other denominations of the coin, and which are neither of an unwieldy bulk, or of an inconvenient ſmallneſs. This is the regulation in Germany: I do not ſay that itis well obſerved *.

Farthings of copper are good and convenient; a few of theſe ought always to be preſerved in favour of the lower claſſes of the people, who thereby are enabled to keep down the prices of the ſmall neceſſaries of life: a matter of the greateſt importance to a trading nation.

Nations ought to copy from one another what is good and convenient, and ſhould be above the thraldom of little prejudices in favour of eſtabliſhed cuſtoms, which have frequently nothing but cuſtom to recommend them.

Mixed metal never to be bagged up with fine.

Fourthly, It muſt be obſerved that upon adopting the German regulation as to pence, ſuch coin

* In 1761 I compoſed a diſſertation concerning the doctrine and principles of money applied to the German coin.

This was tranſlated into German, and publiſhed at Tubingen in the ſame year, under this title: Abhandlung von den Grund Sätzen der Müntzwiſſenchaft, &c.

Thoſe who underſtand German, will there find a very full account of the preſent ſtate of the money of the empire. I never thought it worth while to publiſh the original Engliſh.

muſt

muſt not be allowed to be put up in bags of coin delivered by weight; nor made a legal tender beyond the value of the loweſt ſilver coin.

CHAP. VII.

Of the Regulations obſerved in France, with regard to Coin, Bullion, and Plate.

IT now only remains, that I lay before the reader what I have been able to gather, upon good authority, concerning the regulations in ſome of the principal nations of Europe, with regard to their mint: and this ſo far only as is neceſſary for illuſtrating our ſubject, and confirming the principles we have been laying down.

The unit of weight in the French mint, is the *Marc;* compoſed of eight ounces, every ounce containing 576 grains. The marc conſequently contains 4608 grains of Paris weight, called *poids de marc.*

The marc is the unit of French weight at the mint.

By this weight the bullion is delivered to, and the coin is taken from the workmen in the mint, to whom the King gives an allowance of 36 grains upon the weight of every marc of coin delivered. This allowance is called *le remède de poids.*

The remedy of weight upon ſilver, what.

A marc therefore of French ſilver coin, is not to be reckoned at 4608 grains, but at 4572 grains effective.

The *Titre* or title, as the French call it, or the ſtandard of their ſilver coin, is 11 parts fine to 1 part alloy. At this rate we ſhall find in this *Marc* of

The ſtandard of fineneſs is 11 fine to 1 alloy.

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of coin, conſiſting of 4572 grains ſtandard ſilver, 4191 grains of fine ſilver, and 381 grains of alloy.

Remedy of alloy, what.

But the workmen have alſo an allowance of 3 grains upon the fineneſs, which introduces a new equation.

The maſs of ſilver in the French mint (when we ſpeak of the fineneſs) is ſuppoſed to be divided into 12 deniers, and every denier into 24 grains; which, in this acceptation, are both denominations of proportion, not of weight.

Any maſs of ſilver, therefore, of whatever weight, muſt be ſuppoſed to contain $12 \times 24 = 288$ grains of proportion; conſequently, were the ſtandard exactly 11 deniers fine, the proportion would be marked thus, 264 grains fine, to 24 alloy; but ſince there is an allowance of 3 grains of proportion, called *le remède d'alloy*, this brings the proportion to be as 261 is to 27. This is the exact ſtandard of French ſilver coin, and anſwers to 10 deniers and 21 grains fine, which is the term uſed in the mint.

To find, therefore, the number of grains of fine ſilver in a marc of the French ſilver coin, we muſt ſtate this proportion, 288 : 261 :: 4572 : 4143.38.

Quantity of fine ſilver in a marc as delivered at the mint.

The marc, therefore, of coined ſilver, after all deductions for alloy, and for *remède de poids*, contains of fine ſilver 4143.38 grains *poids de marc*.

Into what coined.

This *marc* is coined into 8 great crowns and $\frac{3}{10}$ of a crown, value in the coin 49 livres, 16 ſols.

If therefore 4143.38 grains of fine ſilver be worth 49 livres 16 ſols, 4608 grains (or a marc of fine ſilver) will be worth 55 livres 6 ſols 9 deniers.

But

But the mint price of fine ſilver is 51 livres 3 ſols 3 deniers.

Mint price of a marc of fine ſilver.

The difference, therefore, between the mint price of fine ſilver, and the price of it in the coin, will ſhew exactly the expence of coinage; conſequently there is withheld for the expence of coinage and duty of ſeignorage (all which deductions and impoſitions are called *le trait des monnoyes*) 4 livres 3 ſols 6 deniers upon every marc of fine ſilver. To know how much this makes *per cent.* ſtate it thus:

51.162 : 55.38 :: 100 : 108.2.

The price of coinage 8½ per cent. upon ſilver.

So that in France there is 8.2 *per cent.* deducted upon the coinage of ſilver, as has been ſaid. Let us next examine the regulations as to the gold.

Remedy of weight upon gold.

The marc, as above, is the unit of weight for the gold, and contains, as has been ſaid, 4608 grains, of which 15 grains are allowed to the workmen for the *remède de poids:* remains of ſtandard gold in the marc 4593 grains.

The fineneſs of ſtandard gold.

The fineneſs is reckoned by carats (not a weight, but a denomination of proportion) for the gold, as the denier is for the ſilver. Fine gold is ſaid to be, as in England, of 24 carats. The carat is divided into 32 parts: ſo $32 \times 24 = 768$, are the parts into which any given maſs of gold is ſuppoſed to be divided, when we ſpeak of the ſtandard fineneſs.

The remedy of alloy upon gold.

The ſtandard of French gold is the ſame with that of ſilver, to wit, $\frac{11}{12}$, or 22 carats fine. Upon this the workmen are allowed $\frac{12}{32}$ parts of one carat, for the *remède d'alloy;* which reduces the ſtandard to $21\frac{20}{32}$ carats fine, to $2\frac{12}{32}$ carats alloy. This expreſſed according to the diviſion above-mentioned, ſtands thus: 692 parts fine to 76 alloy.

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To find, therefore, the number of grains of fine gold in a marc of the coin, we muſt ſtate the following analogy:

768 : 692 :: 4593 : 4138.48.

The marc of gold coin therefore contains, after all deductions, 4138.48 grains of fine gold.

The marc into what coined.

This marc is coined into 30 louis d'ors of 24 livres each, value in all 720 livres.

If therefore 4138.48 grains of fine gold be worth in the coin 720 livres, the marc of fine gold, or 4608 grains, will be worth 801 livres 12 ſols.

Mint price of a marc of fine gold.

But the mint price of fine gold is 740 livres 9 ſols 1 denier.

The difference, therefore, between the mint price of fine gold, and the worth of it in the coin, (viz. 61 livres 3 ſols 2 deniers,) will ſhew exactly the price of coinage.

If we aſk how much this makes *per cent.* we may ſtate it thus:

740.409 : 801.68 :: 100 : 108.2.

The price of coinage 8½ per cent. upon gold: which no way ſtops the mint.

So in France there are 8.2 *per cent.* deducted for coinage of the gold.

By the foregoing calculations it appears, that the king takes above 8 *per cent.* upon the coinage both of gold and ſilver.

For many years paſt there have been no violent methods uſed to bring bullion to the mint, and yet we ſee, by the dates upon the French coin, what great quantities have been ſtruck both of gold and ſilver. This is a moſt convincing proof, I think, that the impoſition of coinage, when properly laid on, is no interruption to the mint; and being a matter of fact well determined, is a confirmation of this principle.

Let

CHAP. VII.

Of the proportion of the metals.

Let us next examine the proportion between the value of the metals, both in the coin and at the mint.

For this purpoſe we muſt compare the mint prices in one equation, and the value of the gold and ſilver coins in another.

How to diſcover it.

At the mint, a marc of fine ſilver is paid 51.162 livres, and a marc of fine gold 740.409 livres; conſequently 51.162 : 740.409 :: 1 : 14.47.

A marc of fine ſilver, in the coin, is worth 55.38 livres; a marc of fine gold, in the coin, is worth 801.68 livres. We may therefore ſtate thus: 55.38 : 801.68 :: 1 : 14.47.

The proportion is as 1 to 14.47.

The proportion, therefore, both at the mint and in the coin is the ſame; and is nearly as the French writers ſtate it, to wit, as 1 is to 14.$\frac{9}{10}$, but more exactly as 1 to 14.47, which is very nearly as 1 to 14.5.

Gold contained in a louis d'or, and ſilver in a crown of 6 livres.

From theſe computations we find the exact quantity of fine gold in a louis d'or, and of fine ſilver in a great crown, or piece of 6 livres.

In the louis d'or there are 137.94 grains fine, and 153.1 ſtandard gold.

In the great crown there are 499.22 fine, and 550.843 ſtandard ſilver.

Proportion of a French grain weight to a troy grain.

Farther, by the moſt exact calculations I have been able to make, after comparing the accounts which French writers give of the proportion of the Engliſh troy grain, with the grain of the Paris pound, and the accounts which Engliſh writers give of the proportion of French grains, with thoſe of the troy pound; and after checking theſe accounts with the moſt accurate trials, by weighing and tak-

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ing a mean proportion upon all, I find that a French grain *poids de marc*, is to an Engliſh grain troy, as 121.78 is to 100. See the table. What a ſhame it is, that in the age in which we live, ſuch proportions ſhould only be gueſſed at by approximations!

To diſcover, therefore, the number of troy grains of fine gold in a louis d'or, ſtate thus: 121. 78 : 100 :: 137.94 : 113.27.

Proportion between the louis and the guinea.

Now a guinea contains 118.651 troy grains of fine gold, and yet, in almoſt every country in Europe, the louis d'or, in time of peace, paſſes for as much as the guinea, when both are of good weight. This is a matter of fact well known, and is a confirmation of another principle which I have laid down, to wit, that the impoſition of coinage gives an advanced value to a nation's coin, even in foreign countries.

Of the fineneſs of French wrought plate.

The fineneſs of the French ſilver wrought into plate, is different from that of the coin. The fineneſs of the coin we have ſaid to be 10 deniers and 21 grains, or 261 parts fine to 27 alloy; and the value of a marc of it (when the 36 grains of remedy of weight is deducted) is 49 livres 16 ſols, which makes the full marc of 4608 grains to be worth 50 livres 4 ſols. The ſtandard of the plate is $11\frac{10}{24}$ deniers, or 274 fine, and 14 alloy. In order, therefore, to find the value of the plate, at the rate of the coin, ſtate thus: 261 : 50.2 :: 274 : 52.7; conſequently ſilver plate in France, at the rate of the coin, is worth 52 livres 14 ſols.

When goldſmiths ſell their plate, they ought regularly to charge, for the metal, the current price of

of the market; but as this is conſtantly varying, the king, for their encouragement, has fixed the value of the marc of it at 52 livres, which is only 14 ſols per marc below the value of the coined ſilver, including the price of coinage. Conſequently, were goldſmiths to melt down the coin in order to make plate of it, they would loſe 14 ſols per marc, beſides the expence of reducing the melted coin to the ſtandard of the plate. Goldſmiths, therefore, in France, will never melt down the coin when they can find bullion in the market, at the price of 14 ſols per marc below the value of the coin; and we have ſeen that the price impoſed on coinage generally reduces the bullion to near 8 *per cent.* below coin: but ſuppoſing them to melt it down, there is no loſs to the ſtate, becauſe the coinage is already paid.

Goldſmiths profit by the impoſition on coinage.

By this regulation, goldſmiths profit by the impoſition of coinage; becauſe the mint price of ſilver being 8 *per cent.* below the value of the coin, and this regulation keeping the price of bullion low, goldſmiths gain upon the ſale of their wrought plate, all the difference between the price they pay for bullion when they make their proviſion of it, and the price they are allowed to ſell it at when wrought.

Another conſequence of this regulation is, that there is no competition occaſioned between the mint and the goldſmiths, to the prejudice of the latter. Nobody will carry bullion to the mint, while there is the leaſt demand for it to make it into plate. This conſequence is plain.

and never find the mint in

Bullion can never fall lower than mint price; conſequently, the mint may rather be conſidered

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competition with them for the metals.

as receiving the bullion upon an obligation to pay a certain price for it, than as demanding it in the market. The ſmalleſt demand, therefore, from the goldſmith, will raiſe the price of bullion when it ſtands at mint price; becauſe he who has it, will never give it to any body who has occaſion for it, without ſome ſmall advantage above what the mint muſt give him for it; but the mint price being fixed, no competition can come from this quarter, and therefore the advanced price the goldſmith gives muſt be very ſmall.

Advantages of the French regulations.

Upon the whole, the regulations in France appear (ſo far as I comprehend them) to be admirably well contrived to ſerve every purpoſe. They prevent the melting down and exporting of the coin; they prevent bullion from being coined, when it cannot remain in the kingdom; they give an advanced value to that part of the nation's coin which muſt be exported for the payment of the balance of trade; and they recall it home when the balance becomes favourable. They prove an encouragement to the induſtry of goldſmiths; there is a ſufficient check put upon their melting down the ſpecie; and there is no diſcouragement given to private people from making plate, becauſe the ſilver in the plate is ſold by the goldſmith, a ſmall matter below its intrinſic worth when compared with the coin.

The only thing to be reformed is the remedies allowed by the king upon the weight and fineneſs; becauſe it tends to perplex calculations, and is not at all neceſſary. When exactneſs can be procured, it ought to be procured; and as the workmen regularly

gularly profit of all the remedies allowed them, it is a proof that they have no occaſion for any indulgence to make up for their want of dexterity.

I ſhall make no mention of the duty of *controle* upon wrought plate. This I conſider as an exciſe upon a branch of luxury; conſequently, the examination of it belongs to the doctrine of taxation, and is foreign to that of money.

It has been ſaid above, that the impoſition of coinage (occaſioning the coin of France to circulate, almoſt at all times, above its intrinſic value as bullion, even in foreign countries) prevented bullion from ever riſing in the Paris market to the price of coin. This principle I alſo find confirmed by facts.

High price of bullion in the Paris market during the year 1760.

Foreign gold of 22 carats fine, ſold in the Paris market (December 13th, 1760) at 712 livres the marc. In order to find the value of the marc of fine gold, ſtate thus: 22 : 712 :: 24 : 776.7. Now the marc of fine gold in the coin, we have ſeen to be 801.12 ſols. So at this time, when France is engaged in a moſt expenſive war, while ſhe is daily exporting immenſe quantities of both gold and ſilver coin, to pay her armies and ſubſidies, the price of gold bullion in her market is 24 livres 18 ſols per marc below the value of her coin. Nothing but the advanced value of her ſpecie in foreign currency, could poſſibly produce ſuch a phœnomenon. But when ſhe was ſending ſtamped ingots of gold to Ruſſia, in the month of September laſt, the price of the gold bullion of 22 carats then roſe to 734 livres per marc, which for the marc of fine gold makes 800 livres 14 ſols, which is but 18 ſols

below the value of the coin. The reaſon is plain: the coin ſent to Germany, or Holland, is conſtantly returning to France, or at leaſt may ſoon return, which ſupports the high price of it in theſe countries; but what was ſent to Ruſſia was plain bullion.

Before I conclude this chapter, I muſt ſay a word concerning the wearing of the French coin by circulation.

Preſent ſtate of the wearing of the French ſilver coin.

As paper money has no currency in France by any public authority, all payments muſt be made in coin. For this purpoſe the ſilver is more commonly uſed than the gold: from which I am obliged to conclude, that the ſilver muſt be ſomewhat over-rated in the coin, above the proportion of the price of gold in the Paris market; but of this I have no exact information.

The ſilver coin is put up in ſacs of 200 great crowns, value 1200 livres. This ſum on coming out of the mint, weighs, according to the following equation, 23 marcs 7 ounces 152 grains. State thus: 8.3 great crowns=4572 grains ſtandard ſilver; conſequently, $200 = 110168.6 = 23$ marks 7 ounces 152 grains.

Theſe ſacs, according to my information, weigh conſtantly at leaſt 23 marcs 7 ounces, excluſive of the ſac; ſo that the French ſilver currency has not, at this time, loſt above 152 grains upon the ſac of 1200 livres, which is about $\frac{137}{1000}$ per cent. This is a trifle upon a ſmall ſum; but as no difference, however ſmall, is a trifle upon a large ſum, a limit ought to be ſet to the farther diminution of the weight of the currency, which might be accompliſhed

plished easily, by ordering for the future all sacs of 1200 livres to be made up to the weight of 23 marks 7 ounces effective. This would be, at present, no injury to the public, there would be a sufficient allowance given for many years' circulation of the coin, and the degradation of it in time to come, would be effectually prevented.

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Of the Regulations observed in Holland, with regard to Coin and Bullion.

Present state of the Dutch currency.

IT comes next in order to examine how this matter stands in the states of the United Provinces, and with this I shall conclude.

We shall here find the question infinitely more involved in combinations, than hitherto we have found it. We shall find the most sagacious people in the world, with regard to trade and money, struggling with all the inconveniences of an ill regulated coinage, and an old worn-out silver currency; carrying on their reckonings by the help of agio; weighing their specie; giving allowance for light weight; buying silver with silver, and gold with gold; as if it were impossible to bring the value of these metals to an equation; and loading commerce with an infinity of brokers, Jews, and cashiers, without the aid of whom it is impossible in Holland either to pay or to receive considerable sums in material money.

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It is very true that what muſt appear an inextricable perplexity to a ſtranger, is really none at all to the Dutch. Trade is there ſo well reduced to ſyſtem, and every branch of it ſo completely furniſhed with hands to carry it forward, that the whole goes on mechanically, and though at a great additional expence to trade in general, yet at none to the merchant; becauſe he regularly ſums up all this extraordinary expence upon his dealings, before he ſuperadds his own profit upon the operation. Were therefore all this unneceſſary expence avoided, by a proper regulation of the coin, the conſequence would be, to diminiſh the price of goods to ſtrangers, as well as to the inhabitants, to leave the profits upon trade, relatively to the merchants, exactly as before; and to increaſe, conſiderably, the trade of the republic, by enabling them to furniſh all commodities to other nations cheaper than they can do, as matters ſtand; but were this plan put in execution, the conſequence would alſo be, to take bread from all thoſe who at preſent live by the diſorder, which ought to be removed.

Regulations in the Dutch mint.

Of the regulations in the Dutch mint.

The unit of weight in the Dutch mint, is the marc *Holland's troes*, or gold weight.

Their unit of weight is the marc Holland's troes.

This weight is about $1\frac{1}{2}$ *per cent.* lighter than 8 ounces Engliſh troy weight, without coming to the moſt ſcrupulous exactneſs.

This marc is divided into 8 ounces; every ounce into 20 engles; every engle into 32 aces or grains. The ounce therefore contains 640, and the marc 5120 aces. By this weight, bullion is bought, and coin

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coin is delivered at the mint, or weighed in circulation, when weighing is neceſſary.

The remede of weight on ſilver.

The mint delivers the ſilver coin by the marc weight; but from the full weight, there is deducted as a *remedy*, one engle and one ace, or 33 aces: ſo the marc of the mint, by which they deliver the ſilver, contains 5087 aces, inſtead of 5120.

The fineneſs of ſilver is different in different coins.

The fineneſs of the Dutch ſilver is various, according to the ſpecies. I ſhall here, for the greater diſtinctneſs, take notice of the fineneſs of the florins only; becauſe this is the beſt and the moſt ſtandard coin, uſed in the payments of foreign bills of exchange, leaving the other varieties of their ſpecie to be conſidered afterwards.

Florins are $\frac{11}{12}$ fine with one grain of remedy.

By florins I mean (beſides the florin pieces) thoſe coins alſo of 30 ſtivers, and the 3 florin pieces, the ſtandard of which is all the ſame, to wit, $\frac{11}{12}$ fine with one grain of remedy.

How they reckon their ſilver ſtandard.

The maſs of ſilver in the Dutch mint, (when we ſpeak of the fineneſs,) is ſuppoſed to be divided into 12 pence, and every penny into 24 grains, as in France.

Any maſs of ſilver, therefore, of whatever weight, is ſuppoſed to be divided into 288 parts; conſequently by $\frac{11}{12}$ fine with one grain of remedy, is meant, that there are 263 of theſe parts *fine*, and the remaining 25 parts of *alloy*. This is the exact ſtandard of the Dutch florins.

To find therefore the number of grains of fine ſilver in the marc weight, as it is delivered at the mint, we muſt ſtate this proportion:

288 : 263 :: 5087 : 4645.4.

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Exact quantity of fine silver in a marc weight of Dutch florins as they come from the mint.

The marc therefore of coined silver florins, after all deductions for alloy, and for remedies of weight and of fineness, contains of fine silver 4645.4 aces Holland's troes.

This marc is ordered to be coined into $23\frac{67}{131}$ florins. If therefore 4645.4 aces of fine silver be worth $23\frac{67}{131}$ or (in decimals, for the sake of facilitating calculation) 23.2024 florins, then the full marc or 5120 aces of fine silver will be worth 25.572 florins by this analogy:

4645.4 : 23.2024 :: 5120 : 25.572.

Mint price of fine silver.

But the mint price of the marc of fine silver is 25.1 florins. The difference, therefore, between the mint price of fine silver, and the price of it in the coin, will shew exactly the expence of coinage. State thus:

The price of a marc of fine silver in the coin - - -	*fl.* 25.572
Price of ditto as paid by the mint	25.1
Price of coinage - - -	0.472

To know how much this makes *per cent.* state thus:

25.1 : 25.472 :: 100 : 101.48.

Price of coinage in Holland is about $1\frac{1}{2}$ per cent. on silver.

So that in Holland there is not quite $1\frac{1}{2}$ *per cent.* taken upon the coinage of silver florins. Let us next examine the regulations as to gold coin.

Of the Dutch gold coins.

There are in Holland two species of gold coins of different weights, fineness, and denominations, to wit, the *Ducat* and the *Rider;* we must therefore examine them separately.

The ducat has no legal denomination.

The ducat is what they call a *negotie pfenning*, that is, a coin struck under the authority of the state,

in

in all the mints, and of a determinate weight and fineneſs; but not a legal money in payments, becauſe it has no *legal* denomination.

Ducats are delivered by the marc weight as the ſilver; but there is a remedy of weight deducted of one engle per marc. So the marc of ducats, as delivered by the mint, weighs but 5088 aces.

The fineneſs of the ducats is (as in the empire) of 23 carats 8 grains; but in Holland they allow one grain of remedy.

The fineneſs 23 carats 8 grains.

The ſtandard of the gold is reckoned by carats and grains: 24 carats are called fine gold, and every carat is divided into 12 grains; ſo let the maſs of gold be of what weight ſoever, it is always ſuppoſed to contain 288 parts, that is, 12×24: at this rate the fineneſs of ducats is 283 parts fine gold, and 5 parts alloy.

How the fineneſs is reckoned.

The imperial ducats ought to be 284 parts fine, 3 parts ſilver, and one part copper, without any remedy; but in Holland the aſſayers bring the gold to the fineneſs of 23 carats and 8 grains; then they ſuppoſe that what remains is all ſilver, and they take their remedy by adding one grain of copper. Dutch ducats are therefore ſomething in the fineneſs, though nothing in the weight below the regulations of the empire.

Fineneſs of the ducats of the empire.

To find the number of grains of fine gold in the marc weight, as it is delivered from the mint, we muſt ſtate this proportion:

$$288 : 283 :: 5088 : 4999.6.$$

The marc, therefore, of gold coined into ducats, after all deductions for alloy, and for the remedies of weight and fineneſs, contains 4999.6 aces of fine gold,

Exact quantity of fine gold in a marc weight of Dutch ducats as they come from the mint.

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gold. This marc is ordered to be coined into 70 ducats.

If, therefore, 4999.6 aces of fine gold, be worth 70 ducats, then the full marc of 5120 aces of fine gold will be worth 71.687 ducats, by this proportion; 4999.6 : 70 :: 5120 : 71.687.

Mint price of fine gold.

But the mint price of the marc of fine gold is 71 ducats.

The difference, therefore, between the value of a marc of fine gold in ducats, and the price given by the mint for the ſame quantity of fine gold bullion, ſhews the expence of coinage. State thus:

Price of the marc of fine gold in ducats - - -	71.687 ducats.
Mint price of the marc ditto	71
Price of coinage - - -	0.687

To know how much this makes *per cent.* ſtate thus: 71 : 71.687 :: 100 : 100.96.

Price of coinage upon ducats about 1 per cent.

So that there is not quite 1 *per cent.* taken in Holland upon the coinage of their gold ducats.

The price of coinage upon both ſpecies ſhould be the ſame.

But upon the ſilver florins there is (as we have ſeen) near $1\frac{1}{2}$ *per cent.* conſequently, there is an encouragement of $\frac{1}{2}$ *per cent.* given for carrying gold to the mint preferably to ſilver; which, I think, is ill judged. I allow that the expence of coining a ſum in ſilver is greater than the expence of coining the ſame ſum in gold; but I think it is better to allow an additional profit to the mint upon the gold, than to diſturb the equality of intrinſic value which ought to be contained in the ſame ſum coined in gold and ſilver. But indeed, according to the preſent ſtate of the Dutch mint, this ſmall irregu-

irregularity is not much to be minded, as we ſhall ſee preſently.

The rider

Riders are a coin but lately uſed in Holland.—Formerly, the Dutch had no legal gold coin, ſilver was their ſtandard; and ducats as a *negotie pfenning* (as they call them) found their own value, having no determinate legal denomination, as has been ſaid.

has a legal denomination, and is a lawful tender in payments to ⅔ of the ſum,

But of late the ſtates have coined this new ſpecies of gold, to which they have given a fixed denomination, and the authority of a legal coin, to be received in all payments, ſo far as one third of the ſum to be paid; the other two thirds muſt be paid in ſilver: but of this more afterwards, our preſent buſineſs being to examine the weight, denomination, and fineneſs of this ſpecies.

is coined always by the ſtate and for the ſtate; ſo there can be no mint price.

Riders are coined by the State alone, no private perſons carrying bullion to the mint for this purpoſe; the coinage, therefore, not being open to the public, it is in vain to ſeek for a mint price. They are delivered at the mint by tale, not by weight; ſo we muſt inquire into the ſtatute weight, fineneſs, and denominations of this ſpecies, in order to diſcover the quantity of fine gold which is contained in the florin of this currency: this we ſhall compare with the florin in the ducat, and ſo ſtrike an equation between the florin in this ſtandard coin, and in the other, which finds its own price, according to the fluctuation of the metal it is made of.

Regulations as to the fineneſs, denomination, and weight of riders.

A marc of fine gold ſtruck into riders circulates for 374 florins. This is the regulation as to the weight.

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The ſtandard is exactly $\frac{11}{12}$ fine, or 22 carats, without any remedy.

The denomination is 14 florins for every rider, the half rider in proportion. To diſcover therefore the quantity of fine gold in a rider, we muſt firſt divide 374 by 14, which will give the number of riders in the marc fine, viz. 26.714 riders; then we muſt ſay, if 26.714 riders contain a marc of fine gold, or 5120 aces, how much will one rider contain? The anſwer is $\frac{5120}{26.714}=191.65$.

Quantity of fine gold in a florin of riders.

Divide this by 14, and you have the number of aces of fine gold contained in a florin of this currency, $\frac{191.65}{14}=13.69$.

Here then is the exact weight of the fine gold contained in one florin of the currency in riders.

To put the ducat upon a par with riders it ſhould circulate for 5 florins $4\frac{1}{2}$ ſtivers.

Let us now examine how much a ducat ought to paſs for, in order to be upon a par with the currency of the riders.

We have ſeen that a marc of fine gold is coined into 71.687 ducats. This number of ducats, therefore, to be upon a par with the riders, ſhould be worth 374 florins. Divide, therefore, this laſt number by the firſt; you have $\frac{374}{71.687}=5.217$ florins, which is a little more than 5 florins $4\frac{1}{2}$ ſtivers.

Utility of not fixing the denomination of ducats.

Were the States, therefore, to give a fixed denomination to ducats, they ought to be put at this value; but the trade of Holland requires that this coin ſhould be allowed to fluctuate, according to circumſtances. The great demand at preſent (1761) for *gold* to ſend to the armies preferably to ſilver, on account of the eaſe of tranſportation, has raiſed the value of that metal, perhaps $\frac{1}{4}$ *per cent.* above what

it

it would otherwiſe be. If then ¼ *per cent.* be added, it will bring the ducat to the preſent current value, to wit, 5.4$\frac{3}{5}$ florins. If, therefore, in order to bring the currency of ducats upon a par with the riders', they were fixed at 5.4$\frac{1}{5}$ florins, it is very plain that no more would be ſent away in payment at that rate, becauſe of the preſent advanced value of gold: conſequently, none would be coined; the mints would be ſtopped, and the armies would be paid in guineas and Portugal gold; the melting and recoining of which keeps at preſent all the mints in Holland in conſtant occupation.

This, beſides employing and giving bread to a number of hands, multiplies the Dutch currency, at a time when they have ſo great occaſion for it.

Let us next examine the proportion of the metals in the coin.

How to find the proportion of the metals in the coin of Holland, and a wonderful phænomenon in the value of ducats.

Here we muſt adhere cloſely to the regulations of the mint above mentioned, and determine only what the proportion of the metals would be, were the coin of Holland, both gold and ſilver, of ſtandard weight, and were it the practice to pay for the metals at the mint, indifferently in either ſpecies.—But neither of theſe ſuppoſitions are to be admitted: Firſt, becauſe the ſilver coin is not of its due weight; and in the ſecond place, becauſe the mint never buys gold bullion but with gold coin, nor ſilver bullion but with ſilver coin. This is the infallible conſequence of a coinage ill regulated in what relates to the proportion of the two different ſpecies, which ought reſpectively to be put into the ſame ſum.

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It would be endleſs to examine the proportion of the metals, with reſpect to every ſpecies of their coin. It would alſo be incorrect to examine it as to the ducats; becauſe this ſpecies has no fixed legal denomination; and the proportion of the metals is to be diſcovered by the denomination of the coins only.

Ducats paſs current among the people for 5 florins 5 ſtivers; but with merchants, who buy them as merchandize, their value is continually varying. At preſent (September 1761) the new coined ducats brought in bags from the mint, which never have circulated, are bought for 5 florins 4½ ſtivers; thoſe which have circulated (were it for a day) fall, from that very circumſtance, to 5 florins 4¾ ſtivers; which is a diminution of near ¼ *per cent.* of their value. This phænomenon ſhall afterwards be accounted for.

Were all the coin of full weight, the proportion would be as 1 to 14.62.

This being the caſe, we have no method left to judge of the proportion of the metals in the coin of Holland, but by the proportion of fine gold and fine ſilver found in the ſame ſum, paid in florins of full weight, and in new riders; the one and the other coined according to the regulations of the mint above mentioned.

It has been ſhewn that a marc of fine gold in riders, circulates for *f.* 374, and that a marc of fine ſilver in florins circulates for *f.* 25.572; divide the firſt by the laſt, you have the proportion as 1 to 14.62: But we ſhall afterward diſcover a circumſtance, not taken notice of in this place, which will reduce the proportion lower.

From

From the above calculations, we may eaſily diſcover the exact quantity of fine ſilver and fine gold contained in a Dutch florin, whether realized in ſilver florin pieces, in gold riders, or in ducats.—As this will be of uſe when we come to examine the par of exchange, it will not be amiſs to ſet before the reader, the exact ſtate of this particular before we proceed. We have ſaid that whoever receives *f.* 25.572 in ſilver florins of full weight, receives a marc of fine ſilver, which contains 5120 aces. Divide the laſt ſum by the firſt, you have 200.21 aces of fine ſilver for the florin.

Quantity of fine ſilver in a florin piece.

Whoever receives *f.* 374 in gold riders, receives a marc of fine gold, which contains 5120 aces.—Divide the laſt ſum by the firſt, you have 13.69 aces of fine gold for the florin.

Quantity of fine gold in a florin of riders.

We have ſeen that ducats fluctuate in their value, having no legal denomination, which obliged us to ſtate the current value of a marc of them at 71.687 ducats, not being able to expreſs this value in florins; becauſe of the unſettled denomination of that ſpecies. Let us now ſpecify this value in florins, upon three ſuppoſitions. The firſt, that the ducat is worth what it paſſes for among the people, to wit, 5 *f.* 5 *ſt.* The ſecond, at the value of new ducats from the mint, to wit, 5 *f.* 4½ *ſt.* The laſt, at the merchant price of good ducats, which have circulated, to wit, 5 *f.* 4½ *ſt.*

Inveſtigation of this proportion as to the ducat.

In the firſt caſe (the ducat at 5 *f.* 5 *ſt.*) 71.687 ducats are worth 376.35 florins, this being the value of a marc of fine gold in ducats, and the marc containing 5120 aces; divide the laſt by the firſt, you have 13.604 aces of fine gold for the florin.

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In the ſecond caſe (the ducat at 5 *f.* 4½ *ſt.*) 71.687 ducats are worth 375.04 florins; by which number divide 5120 as before, you have 13.651 aces of fine gold for the florin.

In the laſt caſe (the ducat at 5 *f.* 4½ *ſt.*) 71.687 ducats are worth 374.11; by which number dividing 5120, you have 13.685 aces of fine gold for the florin, which comes within a trifle of the florin in riders.

by which it appears that the late war has raiſed the value of gold, and ſet the market price of the metals in Holland at 1 to 14.785;

But now (in June 1762) I learn that the courſe of new ducats from the mint in the Holland market, is got up to 5 *f.* 5½ *ſt.* In this caſe, 71.687 ducats are worth 378.1 florins; by which number dividing 5120, as before, you have 13.541 aces of fine gold for the florin.

If we ſeek here the proportion between the gold and ſilver, we muſt ſtate thus: If a florin in ducats contain 13.541 aces of fine gold, and a florin in ſilver coin contain as above 200.21 aces of fine ſilver, then 13.541 : 200.21 :: 1 : 14.785. So the effect of this war has already been to raiſe the value of gold 1.12 *per cent.* above what it was eſteemed to be, when the riders were coined.

The proportion as to riders is, as before, 1 to 14,62.

which is a riſe upon the value of gold of 1.12 per cent.

The preſent proportion as to ducats is 1 to 14.785.

14.62 : 100 :: 14.785 : 101.12.

I muſt farther obſerve upon this ſubject, that although we have ſeen that the ducats which have circulated for ever ſo ſhort a while, when bought at 5 *f.* 4½ *ſt.* produce for the florin 13.685 (which is more than is produced by the new coined ducats freſh from the mint), we are not from this to conclude,

clude, that the former are intrinſically a cheaper currency than the latter. I have been at all the pains imaginable to weigh theſe ducats againſt others freſh from the mint; and alſo to compare their weight with what it ought to be by the regulation; and I have conſtantly found near ¼ *per cent.* difference between them. This is entirely owing to the nature of the coin. The ducat has a large ſurface in proportion to its weight; it carries a very ſharp impreſſion, full of ſmall points; the cord about the edges is exceedingly rough; ſo that the leaſt rubbing, breaking off thoſe ſmall points, diminiſhes the weight of the piece near ¼ *per cent.* which is clear loſs, not only to the proprietor, but to the ſtate, and to all the world. Beſides, thoſe who are obliged to go to the mint for new ducats, are ſuppoſed to bear the greateſt weight of the coinage of a piece which, having no legal denomination, is left afterwards to ſeek its own value, according to that of the metals at the time.

The intention of this minute detail is in order to calculate the real par of the coins of Europe.

As I have entered into this minute detail of the weight of fine ſilver and fine gold contained in the Dutch florins, with a view to facilitate the calculation of the par of the metals contained in the coins of Holland, and thoſe of other nations; I muſt next mention the proportion between the aces in which we have expreſſed the weight of the Dutch ſpecie, and the grains in uſe in ſome of the principal nations with which they trade: Theſe I take to be England, France, and Germany.

Proportion between the mint weights of Holland, England, France, and Germany.

The reduction of weights to mathematical exactneſs, is beyond the art of man; and to this every one, who ever tried it, muſt ſubſcribe. I have been at all the pains I am capable of, to bring thoſe

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weights to an equation; and here follows the result of my examination into this matter.

By all the trials and calculations I have made, I find that 5192.8 aces Holland-troes; 3840 grains Engliſh troy weight; 4676.35 grains Paris poid de marc; and 4649.03 grains Calonia (which is the gold weight of the empire) are exactly equal.

I reckon by the loweſt denomination of theſe ſeveral weights, to wit, their grains; to avoid the endleſs perplexity of reducing to a proportion, their pounds, marcs, and ounces, which bear no regular proportion to their grains.

Par of a pound ſterling, in weighty ſilver, with Dutch florins inriders, is 11 florins 12 ſtivers.

To give ſome examples of this method of calculating the exact par of the metals contained in the coin of thoſe nations, reduced to the weights of Holland, I ſhall ſtate the following computations.

A pound ſterling in ſilver, by the ſtatute of the 43d of Elizabeth, is 1718.7 grains troy fine; to know how many aces Holland-troes this makes, ſtate thus: 3840 : 5192.8 :: 1718.7 : 2324.1.

Divide 2324.1 by 200.21 (the number of aces contained in a ſilver florin); you have for the par of the pound ſterling, *f.* 11.609.

Par of the pound ſterling in gold with ditto, is 11 florins 3 ſtivers and ½.

A pound ſterling in guineas, by the ſtatute fixing guineas at 21 ſhillings, contains 113 grains troy fine; to know how many aces Holland-troes this makes, ſtate thus: 3840 : 5192.8 :: 113 : 152.8.

Divide 152.8 by 13.69 (the number of aces contained in a gold florin in riders); you have for the par of the pound ſterling in guineas, *f.* 11.161.

Par of a French louis d'or with the ſame florin, is 11 florins 3 ſtivers and ½.

A french louis d'or contains 137.94 grains poid de marc fine gold; to know how many aces Hollands this makes, ſtate thus:

4676.35 : 5192.8 :: 137.94 : 153.17.

Divide

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Divide 153.17 by 13.69 (the number of aces contained in a gold florin in riders); you have for the par of the louis d'or, *f.* 11.188.

Par of 24 livres French in silver with the same florin is 11 florins 1½ stiver.

24 livres French, contain 1996.88 grains poids de marc of fine silver; to know how many aces Hollands this makes, state thus:

4676.35 : 5192.8 :: 1996.88 : 2217.4.

Divide 2217.4 by 200.21 (the number of aces in a silver florin); and you have for the par of 24 livres French silver, *f.* 11.076.

Great balance of trade against France, in September 1761.

The French silver, in this example, is less valuable in Holland than the gold: this is no proof that the proportion between the metals in the respective coins in these two nations is different (we shall soon find it to be very exactly the same); but this preference in favour of the French gold, is owing to the temporary demand for gold on account of the war; for which reason no French silver coin appears at present in Holland. I write in September 1761.

I must also observe, that at this time the course of louis d'ors is 11 *f.* 4 *st.* which is little or nothing above the real par of the metal they contain; which in peaceable times is not the case. This proves how strongly the balance of trade is against France with respect to Holland, as it has reduced her specie to the price of bullion: it is not so in Germany.

Low value of the pound sterling in Holland, in 1761.

The low value which a pound sterling has borne in exchange for these several years, and the great fall of its worth in Holland of late, when it has been at 10 *f.* 10 *st.* is no argument against the high conversion I have given it, to wit, above 11 *f.* 12 *st.* Were there nothing but silver coin in England, and were it all of standard weight, exchange

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would frequently run even above this value in peaceable times; becauſe the ſilver coin in Holland is light, and I have reckoned it as if it were of full weight.

It will be obſerved, that the par upon the gold does not quite amount to 11 *ſ.* 4 *ſt.*: the reaſon of which is the great diſproportion in the Britiſh coin, between the intrinſic value of a pound ſterling in ſilver, and in gold, when both are of ſtandard weight; the latter being near 5 *per cent.* worſe than the former, when the proportion of the metals is ſuppoſed to be at $14\frac{1}{2}$. But at preſent there are no ſterling pounds in ſilver money; there is no ſilver in England in any proportion to the circulation of trade; and therefore the only currency by which a pound can be valued, is the guinea.

Owing to the lightneſs of the gold coin in England at that time,

It has been ſaid, and I think ſufficiently proved, that the price of the metals in the market, ſhew very exactly the weight of the currency in nations where coinage is free, when there is no ſevere prohibition *(put in execution)* againſt the exportation of the coin. This I take to be the caſe in England. Now gold there has riſen of late to 4*l.* 0*s.* 8*d.* per ounce: from which I conclude, that the guineas with which it is bought, or with which bank notes are paid, are at preſent ſo light, that 4*l.* 0*s.* 8*d.* of them do not weigh above an ounce (the good guineas are exported); whereas an ounce of new guineas is worth no more than 3*l.* 17*s.* $10\frac{1}{2}$*d.*

Gold, therefore, which now ſells for 4*l.* 0*s.* 8*d.* would certainly be worth no more than 3*l.* 17*s.* $10\frac{1}{2}$*d.* were Engliſh gold coin of its proper weight; and the price of it will come down towards this va-

lue, in proportion as circumſtances ſhall call back the heavy guineas. CHAP. VIII.

To facilitate the verification of this point, I ſhall firſt obſerve, that the difference between 4*l.* 0*s.* 8*d.* and 3*l.* 17*s.* 10½*d.* is 4.57 *per cent.* The Engliſh gold currency, therefore, at the time ſtandard bullion was worth 4*l.* 0*s.* 8*d.* muſt have been worn 4.57 *per cent.* Guineas, when of full weight, weigh 129.43 grains of troy weight; if ſuch guineas be worn 4.57 *per cent.* they ought to weigh no more than 123.23 grains troy. Now let any man try the experiment, and put an old guinea, taken by chance (not picked out) into a ſcale, and ſee whether it has not been worn down to 123.23 grains; and let him alſo examine whether the *greater part* of the guineas, at the time when gold bullion has got to ſo high a price, be not of King George I. and his predeceſſors: theſe I call old.

Beſides theſe, there are other circumſtances to be attended to. Men who job in coin, pick up all the worſt guineas they can when they go to market; or if they buy with paper, we may conclude, that the bank at that time pays in guineas not above the weight of 123.23 grains troy; for if the bank paid with guineas of a greater weight, he who had occaſion to carry his paper to market to buy gold bullion, would certainly rather go to the bank, and afterwards melt down their guineas. Were the bank of England never to pay but in gold of full weight, and were the exportation of guineas free, it is impoſſible that gold ſhould ever riſe above the mint price, which is 3*l.* 17*s.* 10½*d.*

As

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As a farther confirmation of the juſtneſs of the high valuation I have put upon a ſilver pound ſterling of ſtandard weight, I ſhall obſerve, that a new guinea paſſes in Holland for 11 *f.* 11 *ſt.* at the time when the exchange for a pound ſterling is at 10 *f.* 10 *ſt.* and every body knows, that ſuch a guinea in England is not above the intrinſic value of a ſilver pound ſterling of full weight. If then I can get 11 *f.* 11 *ſt.* for a new guinea, I ought to get as much for a new ſilver pound ſterling, ſince the intrinſic value of both is the ſame. Now this guinea muſt be worth more than 11 *f.* 11 *ſt.* becauſe the Jews, who carry them to the mint, give this price for them (I have diſpoſed of them to Jews at this value *); and as the coinage of ducats coſts, as we have ſeen, near 1 *per cent.* the guinea is intrinſically worth 2 ſtivers more, that is 11 *f.* 13 *ſt.* but as gold at preſent bears an advanced price upon account of the war, and that the proportion between gold and ſilver is in Holland above 1 to 14$\frac{1}{2}$, theſe are the reaſons why the guinea, in Holland, is at preſent ſomething above the intrinſic value of a ſilver pound ſterling, which we have ſtated at *f.* 11.609, a trifle above 11 *f.* 12 *ſt.*

and not to the wrong balance of their trade, as is alleged.

Let me here obſerve, by the bye, that all the pounds remitted from Holland to England, for filling the ſubſcription for 12 millions of laſt year, coſt the remitters no more than 10 *f.* 10 *ſt.* for the pound ſterling. If this low courſe of exchange be owing (as ſome pretend) to a wrong balance of trade againſt England, and not (as I pretend) to the

* This was written in Holland.

lightneſs

lightneſs of the gold currency; then we muſt allow, that the expence of the German war (which is what alone carries off coin out of the kingdom) muſt have exceeded all the profits of the Engliſh commerce, which I apprehend to be at preſent immenſe; and alſo all the money lent by foreigners towards the loan of 12 millions. I leave to others more knowing than I am, to determine if ſuch a ſuppoſition be admiſſible. If it be rejected, let any man reflect how abſurd it would be to raiſe, at this time, the ſtandard of the pound ſterling to the old value; the conſequence of which would be to repay at 11 *f.* 11 *ſt.* all ſums which have been borrowed at the value of 10 *f.* 10 *ſt.* or in other words, to make a preſent to the Dutch creditors of above 11 *per cent.* upon account of a loan for a year or two.

Defects of the ſilver currency of Holland.

Having now given as good an account as I can of the Dutch coin, according to the regulations of the ſtate; I ſhall next point out the defects of their ſilver currency, and ſhew the conſequences which reſult from them. As for the gold, it is at preſent perfectly well regulated. The riders are all exact in their weight, fineneſs, and denomination; the ducats are all now recoined of legal weight and fineneſs; and the denomination not being fixed, they ſerve, in a trading nation, as a merchandize, of which the weight and fineneſs are well aſcertained. The only defect, therefore, I can diſcover in the Dutch gold currency, is the form of the pieces. They have too much ſurface in proportion to their weight, and the impreſſion is too ſharp; both which contribute greatly to the wearing of the coin.

The

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Account of this currency.

The ſilver currency of Holland is of two ſorts; the bank ſpecies, and the current ſpecies. Here it muſt be obſerved, that by bank *ſpecies* is not meant Amſterdam *banco*, or bank money, but certain coins which are called *bank ſpecies*. Theſe are

Pieces of 3 guilders.
——— 30 ſtivers.
——— 20 ſtivers.

Theſe are called *groſſ gelt*, as being the good ſpecie, of which only we have hitherto ſpoken. Sums to be paid in bank ſpecies, muſt be compoſed of $\frac{2}{3}$ of this currency, and of $\frac{1}{3}$ of what follows: viz.

Riders of 14 florins.
Dutch half-crowns of 28 ſtivers.
Ses t'halves of $5\frac{1}{2}$ ſtivers.

I have put in the riders, though a gold coin, in order to give a complete enumeration of all the kinds of theſe bank ſpecies.

Regulations for the payment of foreign bills in coin.

Foreign bills drawn on Rotterdam in banco (i. e. bank ſpecies) are often received *there*, in any of the above ſpecies, without regard to the $\frac{2}{3}$ which ought to be groſſ gelt; but when the holder of the bill deſires the acceptor (which the latter cannot refuſe) to write it off to his credit in the current bank of Rotterdam, and that he has there no ſtock, then if he bring in ſpecie to the bank, it muſt be as above ſpecified.

Ditto for current bills.

Current bills, not ſpecified by the word *banco*, are generally paid according to the following proportion;

$\frac{3}{110}$ in ſchillings of 6 ſtivers.
$\frac{1}{110}$ in dubleties of 2 ſtivers.
$\frac{6}{110}$ in good ſilver.

Goods

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Goods are paid with all kinds of Dutch ſilver, $\frac{1}{10}$ only in dubleties, and $\frac{1}{7}$ gold, leſs or more, or ſometimes none, according to agreement.

Ditto for merchandize.

From this expoſition of the matter, it is very evident, that all theſe currencies muſt be of different intrinſic values, in proportion to their denomination; otherwiſe, why all this trouble about regulating the proportion to be received in payments? This proceeds from two cauſes: firſt, from the wearing of the pieces; the ſecond, from the diſproportion of the fineneſs in pieces of the ſame weight and denomination.

The denominations of the ſeral ſilver currencies not proportioned to their intrinſic value.

Cauſe of this.

As to the firſt, to wit, the wearing of the coin, I ſhall obſerve, that the three denominations of the good ſilver, to wit, the 3 guilder pieces, the 30 ſtiver pieces, and the 20 ſtiver pieces, are put up promiſcuouſly in the ſame bags; being of the ſame fineneſs, and conſequently of the ſame value, in proportion to their weight. Theſe bags contain 600 florins each, and the legal and full weight, with which they are weighed at the bank current of Rotterdam, is 25 marcs 5 ounces and 10 engles. Now the exact weight of a florin, according to the regulation, is, as we have ſaid, 200.21 aces fine; then the 600 florins ought to weigh 120.120 aces fine, which, at the ſtandard of 263 parts fine to 25 alloy, is 131545 aces ſtandard: by this analogy, 263 : 120.120 :: 288 : 131545; which is equal to 25 marcs 5 ounces 10 engles and 13 aces. So the weight at the bank is but 13 aces lighter than in ſtrictneſs it ought to be; which is ſo ſmall a difference, that it could hardly turn a ſcale with ſuch a weight ſuſpended in it: for which reaſon, I ſuppoſe

Regulations concerning the weighing of ſilver ſpecies in banks current.

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poſe it is left out, for the ſake of the even reckoning of 25 marcs $5\frac{1}{2}$ ounces.

Did theſe bags of ſilver coin come up to the full weight, then the ſilver currency in Holland would be good as to thoſe pieces; but as the greater part of them are old, having been ſtruck with the hammer, and are of unequal weight, having been coined *(al marco)* in the old faſhion, when coin was weighed by the marc, and not as at preſent piece by piece, it is impoſſible they ſhould be of legal weight: the bank, therefore, allows 2 ounces of remedy in receiving thoſe ſacs, that is, they put 2 ounces into the ſcale with the ſac, and if they find that the ſac is ſtill light, but that the deficiency does not exceed one ounce more than the remedy, they throw out the coin and reckon it over; and if the tale be juſt, and that none of the pieces appear to have been clipped, they receive it as if it were of due weight: if it prove above 3 ounces ſhort of the juſt weight, they do not receive it.

All allowances for light weight are an abuſe.

Here is a palpable abuſe, from a diſorder in the coin. If a ſac is ever ſo little too light, why allow it to paſs, as if it were of due weight? Nothing is ſo eaſy as to order ſuch deficiency to be made good by the deliverer. Weights are made for exactneſs, and all remedies are aukward and incorrect.

This allowance muſt open a door to malverſations in a country like Holland, where there is almoſt no milled ſilver coin. The old hammered money was not weighed at the mint, as has been ſaid, piece by piece: it was ſufficient that every marc of it anſwered to the legal denomination. Under ſuch a regulation, it is very plain, that there muſt

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must be many pieces above the legal weight, as well as many pieces below it. Is it to be supposed that money-jobbers will not profit of this inequality, by reducing the heavy pieces to their standard weight, when by such an action they cannot be convicted of any crime? This is one abuse.

By reducing the heavy pieces to their legal weight, the currency is degraded; because that which is taken from these ought to be left to compensate what the light pieces fall short. The bank, therefore, by giving the remedy, gives a kind of sanction to this malversation.

Frauds of money-jobbers in Holland.

Farther, if a money-jobber gets some sacs above the current weight, is it to be doubted but he will reduce them as near as he can to the lowest weight receivable at the bank? And if he should mistake, and reduce them too low, he has still an expedient for cheating the public, which shall be mentioned presently.

The best silver coin in Holland is, upon an average, 2 per cent. too light.

Now let us suppose the specie we are speaking of to be, upon an average, 2 ounces only *per* sac below the standard. If it be no more, this circumstance does great honour to the money-jobbers. Such a deficiency, however, amounts to within a mere trifle of 1 *per cent.* Is not this an object of great importance, upon all the silver specie of Holland; especially as the remedy given by the current bank, is a tacit permission given to every body who has address, to rob so much from all the weighty coin?

From which it follows, that the actual proportion of the metals in

Let us, in the next place correct the calculation we formerly made upon the proportion of the metals in the Dutch coin. We said above, that a marc

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marc of fine gold in riders circulated for *f.* 374, and that the ſame weight of ſilver circulated for *f.* 25.572, which gave for the proportion 1 to 14.62; but now we find that this marc of ſilver has loſt by fraud and wear 1 *per cent.*

their coin is as 1 to 14.479.

Now the marc of ſilver being 5120 aces, if it have loſt 1 *per cent.* there will remain 5068.8 aces. If theſe 5068.8 aces, therefore, circulate for *f.* 25.571, the full marc muſt be worth in the coin *f.* 25.83.

In order then to find the exact proportion of the metals in the Dutch currency, we muſt divide 374 by 25.83, inſtead of dividing by 25.572, as we did when we ſuppoſed the ſilver to be of full weight. Now $\frac{3}{2}\frac{7}{5}\frac{4}{8}\frac{0}{3}$ is = 14.479. So the proportion is as 1 to 14.479, the ſame, within a trifle, of that received in France; which is as 1 to 14.47. But if we attend to every circumſtance, we ſhall find the proportion ſtill lower than the laſt calculation makes it; for in this, we have ſearched for it with reſpect to the beſt ſilver ſpecie in Holland; whereas we ought, in ſtrictneſs, to calculate the gold, againſt a mixture of $\frac{1}{3}$ of leſs valuable ſpecie, with $\frac{2}{3}$ of the good: but when computations cannot be brought to perfect exactneſs, it is better not to attempt a calculation.

Another abuſe in the ſilver coin of Holland.

Before I leave the conſideration of the inequality in the weight of the Dutch currency, I muſt take notice of another circumſtance of conſiderable importance.

No payments made in ſilver, below *f.* 600, are ſubject to be weighed; any more than what circulates without being put up in bags. What reſtraint, therefore,

therefore, is there laid upon money-jobbers, with reſpect to this part of the currency? When theſe gentlemen have occaſion for money bagged up, they take care that ſuch ſpecie ſhall be of the proper weight to be received at the current bank, and as for all that is light, they either employ it in payments below *f.* 600, or throw it into the common circulation. This circumſtance preſents us then with two ſorts of ſilver currency in Holland; namely, that which is bagged up, and weighty; and that which is not bagged up, and light.

If we conſider the trade of Holland, and the prodigious quantity of payments made in current money, we ſhall find the quantity of ſilver which circulates in looſe pieces very ſmall, in proportion to that which is bagged up: the regulation therefore of weighing the bags is of infinite importance; and were it not for this, the currency would be debaſed in a very ſhort time. But the caſhiers, who are the great depoſitaries of this currency, being obliged to deliver the bags of the legal weight, they are thereby reſtrained from tampering with it: and the bagging of it up, greatly preventing the wear, ſupports tolerably well the weight of this old currency of hammered money.

Reaſon of the great apparent ſcarcity in Holland of ſilver coin.

To people who do not attend to all theſe circumſtances, there *appears* a prodigious ſcarcity of ſilver currency in Holland. It is there as difficult to get change for ducats, as it is in England to get change for guineas; and yet, upon examination, we ſhall find, that the intrinſic value of the ſilver coin, commonly given in exchange for the gold ſpecies, is far below the value of the gold.

BOOK II.

A paradox to be reſolved.

Here then is a paradoxical appearance to be reſolved; to wit, How it can happen in trading nations, ſuch as England and Holland, that in the exchanging light ſilver coin for weighty gold coin, people ſhould be ſo unwilling to part with the ſilver, although really of leſs value than the gold.

This is the caſe in both countries: thus it happens in England, where there is ſo little ſilver currency; and the caſe is the ſame in Holland, where there is a vaſt deal. Let me therefore endeavour to account for theſe political phænomena.

Since the time I compoſed the former part of this inquiry into the principles of money and coins, I have found, by the trials I made in Holland upon the weight of the Engliſh ſilver currency, that ſhillings are at preſent (1761) far below the weight of $\frac{1}{65}$ of a pound troy, which is what they ought to be, in order to make 21 of them equal in value to a new guinea, according to the preſent proportion of the metals. It is therefore demanded,

Firſt, How it comes about that ſuch ſhillings do not debaſe the value of the Engliſh ſtandard below that of the gold?

Secondly, Why are they ſo difficult to obtain, in change even for new guineas, which are of more intrinſic value every where? And,

Thirdly, Why money-jobbers are not always ready to give them in exchange for new guineas?

Theſe appearances ſeem inconſiſtent with the principles above laid down; and a reaſon muſt be given why theſe principles do not operate their effect in this example.

I anſwer,

CHAP. VIII.

Solution of it.

I anſwer, that circumſtances are infinite, and muſt conſtantly be attended to; and there are in the caſe before us ſeveral particulars not to be overlooked; I ſhall therefore point them out, in my anſwers to the three queſtions, as they lie in order.

As to the firſt, I anſwer, that theſe ſhillings are in ſo ſmall a quantity, in proportion to the gold ſpecies, that they cannot be employed in *payments*. Now it has been ſaid above, that *exchange* (in trade) regulates the value of the pound ſterling, and conſiders it as a determinate value, according to the ſum of the intrinſic worth of all the ſeveral currencies, *in proportion as payments are made in one or the other*. Now (generally ſpeaking) no commercial obligations are acquitted in ſilver. I do not underſtand by the word *payments*, a few pounds ſterling ſent from farmers in the country, perhaps in payments of their rents to their landlords; nor what falls into the public offices, in the payment of taxes. It is trade alone, and the payment of bills of exchange between different countries, which can aſcertain the true value of that currency in which mercantile payments are made. Were theſe worn-out ſhillings in ſuch plenty as to allow bills of exchange to be acquitted in them, I make no doubt but they would fall below the value of the $\frac{1}{21}$ of new guineas; every one would be glad to diſpoſe of them for guineas, at the rate of their currency; and guineas, then, would be as difficult to be got for light ſilver, as light ſilver is now to be had for guineas. This would bring the ſtandard ſtill lower than it is at preſent; that is, below the value of

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the gold: but as payments cannot be made in light ſhillings, their currency cannot affect the ſtandard.

The ſecond queſtion is, Why they ſhould be ſo difficult to obtain in change for guineas, which are above their value?

I anſwer, that it is not the intrinſic worth of the light ſhillings which makes them valuable, and difficult to be got; but the utility they are of in ſmall circulation forces people to part with their guineas for a leſs valuable currency. Theſe ſhillings I conſider (now) as *marks*, not as material money, fitted to a ſtandard. Every body knows the difference between *marks* or *counters*, and *ſpecie of intrinſic worth*. The copper coin of moſt nations is marks, and paſſes current, although it do not contain the intrinſic value of the denomination it carries; nor ought it to be a legal tender in payments beyond the value of the loweſt denomination of ſilver coin. Such a regulation will preſerve its uſefulneſs for ſmall circulation, and will prevent it, at the ſame time, from debaſing the ſtandard, and involving in confuſion the *ſpecific currency* (as I may call the gold and ſilver coins) when properly proportioned, and of juſt weight.

But ſhillings in England, although they be at preſent in a manner no better than marks, becauſe of their lightneſs; yet in the eye of the law they continue to be lawful money, and a legal tender in payments. It is therefore of great conſequence that ſuch ſhillings be not in too great plenty. This would have been the caſe, had government come in to the plan propoſed for the coinage of ſhillings below the ſtandard; ſuch ſhillings would have been coined

coined abroad, and run in upon England, to the great detriment of the nation; and although they had been proſcribed in payments, beyond a certain ſum, yet they would have been ſo multiplied in ſmall payments, as to have furniſhed the means of buying up the gold coin, and carrying it out of the country for an under-value. Whereas the worn ſhillings do not produce this bad effect becauſe of the ſcarcity of them, and becauſe of the impoſſibility of imitating them in foreign mints *.

* It is commonly believed that ſhillings are coined in Birmingham, and that Government winks at the abuſe, becauſe of the great ſcarcity of ſilver in England. I find no foundation for this belief, after the inquiry I have made.

In the firſt place, Mr. Harris, who was the beſt aſſay-maker in Europe, told me, that a bag of thoſe ſhillings had been ſent to the mint by the Lords of the Treaſury, to be tried by him: that he had found them to be Engliſh ſtandard, to the moſt ſcrupulous exactneſs: that he did not believe any ſuch correct aſſay could be made, except at the mint: that all the engravers of the mint declared it was impoſſible to imitate a worn ſhilling.

The trials I myſelf made were of a different nature. I examined the ſhillings with a magnifying glaſs; and found every one almoſt different in the impreſſion, as well as in the weight. In ſome the back part of the head was worn, in others the face: none, in ſhort, was worn perfectly alike to another.

I put a handful of them into a coal fire; and taking them out when red-hot, and throwing them on the hearth, I plainly diſcovered, on many of them, ſome part of the arms of Great Britain appearing in the croſs upon the reverſe, in a different colour from the ground of the coin: in others indeed nothing could be ſeen: this was owing to the degree of wearing. How then can any dye ſtrike an impreſſion upon a coin, which will anſwer all theſe appearances?

I communicated to Mr. Harris the trials I had made, and he was perfectly ſatisfied, upon the whole, that no old ſhilling had ever been counterfeited at Birmingham.

BOOK III.

The anſwer to the third queſtion, viz. Why money-jobbers are not always ready to give old ſhillings for new guineas? is eaſy, from what has been ſaid. They cannot pick them up below the mean value of the currency; becauſe of the great demand there is for them in exchange for guineas; therefore they can gain nothing by providing them for that purpoſe.

It comes next in order, to ſolve a ſimilar phænomenon in Holland, where there are great quantities of ſilver ſpecie, and yet one can hardly find change for a ducat, except in a ſhop, where one has occaſion to buy ſomething.

This myſtery is eaſily reſolved. The great quantities of ſilver in Holland conſiſt of what is put up in bags of due weight, according to the regulations mentioned above. This part of their currency is about ½ *per cent.* better, in intrinſic value, than ducats at 5 *ſ.* 5 *ſt.* tale for tale; which is a ſufficient reaſon not to part with it, in change for ducats at that rate. But beſides this bagged up bank ſpecie, there are many other ſorts of old worn-out coin, of unequal weight and fineneſs.

Theſe ſerve as marks for the ſmall circulation, and are not a legal tender in all payments; ſuch as foreign bills. What is the conſequence of this? Since this old ſpecie carries denominations above its value, when compared with the bagged-bank-ſilver coin, it ſerves to buy up this good ſilver, when it falls into circulation; that is, it ſerves to buy up, or to exchange, florin pieces, which are, as I have ſaid, ½ *per cent.* better than ducats at 5 *ſ.* 5 *ſt.* Such good ſilver pieces are not very common in ordinary circulation;

circulation; but as it frequently happens that people receive ſilver in ſacs, for their daily expence, who do not mind the difference of ½ *per cent.* when they pay in this good money, it circulates for a little time, until it falls into the hands of thoſe who know it, and bag it up again. Thus it happens in Holland, from the diſorder of their coin, that you may be paid a million ſterling, if you pleaſe, in good ſilver coin; and yet you find difficulty to procure ſilver for a ducat, in the lighteſt, baſeſt, and moſt aukward pieces imaginable, for reckoning. The bad conſequences reſulting from this diſorder, have been taken notice of in the proper place.

END OF THE THIRD BOOK.

INQUIRY

INTO THE

PRINCIPLES OF POLITICAL ŒCONOMY.

BOOK IV.

OF CREDIT AND DEBTS.

PART I.

OF THE INTEREST OF MONEY.

INTRODUCTION.

BOOK IV.

I COME now to inquire into the principles of credit; a ſubject already introduced in the 27th chapter of the ſecond book, where I examined the nature of circulation, and pointed out the principles, which direct a ſtateſman when and how to retard or accelerate its activity, according as the political intereſts of his people may require.

In that chapter the object was, when and how either to extend or reſtrain the uſe of credit, according to political circumſtances. The inquiry now comes to be, what this credit is; upon what it is founded; what the various ſpecies of it are; what are the methods of eſtabliſhing and extending it, while it is in its infancy and vigour; how to ſuſtain it when it is overſtretched; and laſt of all, how to

let it fall as gently as poſſible, when by no human prudence it can be longer ſupported.

Many political writers in treating of credit, repreſent it as being of a very myſterious nature; owing its eſtabliſhment to a confidence not eaſily accounted for, and diſappearing from the ſlighteſt unfavourable circumſtances.

That credit, in its infancy, is of a very delicate nature, I willingly allow; as alſo that we have many examples which confirm the ſentiments of thoſe who believe it to contain, in itſelf, ſomething very myſterious: but this proves no more, than that, in ſuch caſes, credit (as I conſider it, and as it will appear really to be) has not been properly eſtabliſhed. The cauſe of confidence has had nothing in it but opinion, and when this is the caſe, credit is but a ſhadow; and like a thin vapour, it may be diſſipated by the ſmalleſt breath of wind.

They all agree that credit is no more than confidence, but they do not examine how this confidence is to be eſtabliſhed on a ſolid foundation.

The operations of credit are incompatible with the involved contracts of the law, and with the ſpirit of intricate land-ſecurities. The policy of ſuch contracts was analogous to the manners of the times which gave them birth. Trade is a late refinement, in moſt nations of Europe, and induſtry is ſtill a later: the beginnings of both are ſlow, imperceptible, and obſcure. The inſtruments by which they are promoted, are the lower claſſes of a people; the intereſt of the individuals who compoſe them, may appear to ſome, to be below the attention of a ſtateſman; and yet it is by the accumulation

tion of their induſtry only, that this huge fabric is erected. Introd.

To eſtabliſh that credit, which is neceſſary for carrying on ſo great a work, a ſtateſman muſt lend his hand. He muſt give a validity to mercantile obligations, which have no name in his law-books: he muſt ſupport the weak againſt the ſtrong: he muſt reform the unwieldy procedure of courts of juſtice: he muſt facilitate the ſale of property: he muſt eſtabliſh the credibility of merchants' books regularly kept: he muſt diſcourage frauds, and ſupport fair dealing.

When ſuch a plan is once eſtabliſhed, confidence will find a baſis in the property of every individual who profits by it. When it is not eſtabliſhed, credit will appear like a meteor: intelligent and crafty men will avail themſelves of it, and thereby dazzle the eyes of the public, with gilded ſchemes of opulence and proſperity: mankind will fly to induſtry, confidence will be eſtabliſhed; but as there will be no method of determining the bounds of this confidence, the promoters of the ſcheme will profit of the deluſion: confidence will vaniſh; and the whole will appear to have been a myſtery, a dream. Is not this a repreſentation of many projects ſet on foot ſince the beginning of this century? What were the South Sea's and Miſſiſippi's, but an abuſe of confidence? Had ever the *cauſe* of confidence been examined into, would ever ſuch extravagant ideas have arrived at the height they did?

Credit therefore muſt have a *real*, not an *imaginary* object to ſupport it; and although I allow that in all operations of *mercantile* credit, there muſt be ſomething

BOOK IV.

ſomething left to chance and accident; yet this chance muſt bear a due proportion to the extraordinary profits reaſonably to be expected from the undertaking.

From this it appears, what an uſeful ſpeculation it is to inquire properly into the nature of credit; to deduce with accuracy the principles upon which it is founded; to baniſh myſtery from plain reaſon; to ſhew how every the moſt ſurprizing effect of credit, whether tending to the advantage, or to the hurt of ſociety, may eaſily be accounted for; and, which is the moſt uſeful of all, to point out how ſuch effects may be foreſeen, ſo as either to be improved or prevented.

In going through ſo extenſive a ſubject, as a deduction of the principles of credit, method is very neceſſary; and when a detail is long, ſubdiviſions are very convenient. I have, upon this account, divided this book into four parts.

The firſt ſhall be ſet apart for deducing the principles which regulate the rate of intereſt; becauſe this is the baſis of the whole.

The ſecond, for the principles of banking; under which I ſhall have an opportunity to unfold the whole doctrine of domeſtic circulation.

The third, for thoſe of exchange; which is equally well calculated for carrying on foreign circulation; and as to what regards debts, and the borrowing of money, with all the conſequences which they draw along with them, theſe important objects will furniſh ample matter for

The fourth and laſt part, which ſhall treat of the principles of public credit.

Theſe

Theſe things premiſed, I proceed to the definition of credit. Introd.

CHAP. I.

What Credit is, and on what founded.

CREDIT is the *reaſonable expectation entertained by him who fulfils his ſide of any contract, that the other contracting party will reciprocally make good his engagements.*

To illuſtrate this, we may ſay with the lawyers, that as all contracts may be reduced under one of the following heads, *Do ut des, do ut facias; facio ut des, facio ut facias;* ſo he who actually gives or performs his part, is the creditor, or the perſon who gives credit; and he who promiſes only to give or to perform, is the debtor, or the perſon who receives it.

Credit, therefore, is no more than a *well eſtabliſhed* confidence between men, in what relates to the fulfilling of their engagements. This confidence muſt be ſupported by laws, and eſtabliſhed by manners. By laws, the execution of formal contracts may be enforced: manners, alone, can introduce that entire confidence which is requiſite to form the ſpirit of a trading nation.

Credit, in its infancy, muſt be ſupported by ſtatutes, and enforced by penalties; but when it is once well eſtabliſhed, every recourſe had to law, is found to wound the delicacy of its conſtitution.

For

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For this reaſon, we ſee, that in certain nations *, the legiſlator wiſely excludes the ordinary courts of juſtice from extending their rigid juriſdiction over mercantile engagements: they leave to the prudence and good faith of men verſed in commerce, to ſolve the difficulties which reſult from ſuch tranſactions; becauſe they are to be interpreted more according to the conſtant fluctuation of manners, than to the more permanent inſtitutions of poſitive law.

The more the juriſdiction of the ſtateſman is unlimited; or, in other words, the leſs the power of any ſovereign is reſtrained, by the laws and conſtitution of the ſtate he governs, the more it behoves him to avoid every ſtep of adminiſtration which can make his authority be felt in caſes where credit is concerned. If he ſhould happen, for example, to be a debtor himſelf, he muſt take good care never to appear in any other light to his creditor. The moment he puts on the ſovereign, the ſame moment all confidence is loſt. For theſe reaſons, we have hitherto had few examples (I might perhaps have ſaid none at all) where credit has been found *permanently* ſolid, under a pure monarchy.

But we muſt obſerve, at the ſame time, that the ſtability of credit is not incompatible with this form of government. At certain times, we have ſeen credit make a ſurpriſing progreſs in France; and it has never ſuffered any check in that ſtate, but from acts of power, which I think have proceeded more from inadvertency, and want of knowledge, than

* In France particularly.

from

from a formed deſign of defrauding creditors. Theſe may be looked on as blunders in adminiſtration; becauſe they have conſtantly diſappointed the purpoſe for which they were intended. Let me prove this by ſome examples.

The arret of 21 May 1720, (of which we ſhall give an account hereafter,) deſtroyed in one day the whole fabric of credit, which had been erected in France during the courſe of three years; and which in ſo ſhort a time had mounted to a height hardly credible. I ſay, that in one day this inadvertent ſtep (for no real injury was intended) deſtroyed the credit of 2,697,048,000 livres of bank notes, (above 120 millions ſterling) and of 624,000 actions of the Eaſt India company, which (reckoned at 5000 livres apiece, the price at which the company had laſt ſold them) amount to 3,120,000,000 livres, or above 140 millions ſterling. Thus at one blow, and in one day, 260 millions ſterling of paper currency, payable to bearers, were ſtruck out of the circulation of France; by an uſeleſs and inadvertent act of power, which ruined the nation, and withered the hand which ſtruck it: an event too little underſtood, and too little remembered in that kingdom.

This plainly appears from their late conduct; for in the end of 1759, at a time when the credit of France was in ſo flouriſhing a ſituation as to have enabled her to borrow, that very year, near 200 millions of livres; and when there was a proſpect of being able to borrow, in the year following, a far greater ſum, the ſhutting up what they called their *caiſſe d'amortiſſement*, for the ſake of withholding

ing 32 millions of livres intereſt due to the creditors, ſtruck all credit *with foreigners* dead in one inſtant.

Theſe examples ſhew what fatal conſequences follow a misjudged exerciſe of power in matters of credit.

On the other hand, the rapid progreſs of credit in France before the Miſſiſippi, and the ſtability of it from 1726 to the year 1759, abundantly proves, that no two things are more compatible than monarchy and confidence. All that is wanting is the eſtabliſhment of *one maxim in government;* to wit, that the King's power is never to extend ſo far, as to alter the ſmalleſt article of ſuch contracts as have been made with thoſe who have lent money for the ſervice of the ſtate.

Maxims in government bind the monarch and the legiſlature, as laws bind ſubjects and ſubordinate magiſtrates: the one and the other ought to be held inviolable, ſo far as they regard credit; or confidence will be precarious.

What has ſupported the credit of Great Britain, but the maxim conſtantly adhered to, that the public faith pledged to her creditors is to be inviolable?

Does any one doubt, but the legiſlature of this nation may ſpunge out the public debts, with as much eaſe as a King of France? But in the one kingdom, the whole nation muſt be conſulted as to the propriety of ſuch a ſtep; in the other, it may be done at the inſtigation of a ſingle perſon, ignorant of the conſequences: but I hope to make it appear, before the concluſion of this book, that it is impoſſible to form a ſuppoſition, by which a ſtate can

can be benefitted by deliberately departing, for one moment, from the faith of her engagements. A national bankruptcy may no doubt happen, and become irreparable; but this muſt be when the ſtate is emerging from a ſignal calamity, after having been involved in ruin and confuſion.

Confidence, then, is the ſoul and eſſence of credit; and in every modification of it, we ſhall conſtantly find it built on this baſis: but this confidence muſt have for its object a *willingneſs* and a *capacity* in the debtor to fulfil his obligations.

CHAP. II.

Of the Nature of Obligations to be performed, in conſequence of Credit given; and of what is meant by the terms regorging and ſtagnating of money.

WE have already ſaid, that all obligations contracted with a view to be performed in future time, conſiſt in doing or giving ſomething in conſideration of ſomething *done* or *given*.

When actions only are ſtipulated in contracts, *credit* (in a ſtrict acceptation of the term) is little concerned; becauſe no adequate ſecurity can be given for performing an action: ſuch contracts ſtand wholly upon the willingneſs and capacity of *acting*, which depend more upon the *perſon* than upon the *faculties* of the debtor. To ſupply this defect, we ſee penalties uſually ſtipulated in ſuch caſes; which reduce thoſe contracts to an alternative obligation of either *doing* or *giving*.

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We ſhall therefore throw out the conſideration of the firſt altogether, as being foreign to our purpoſe; and adhere to the latter, which is the true object of credit. Again:

In all obligations to give any particular thing, there is conſtantly implied an alternative alſo; to wit, either the thing ſtipulated, or the value (*id quod intereſt*, according to the lawyers): this muſt be relative to money; which is the common price of all things in commerce among men.

Thus we have brought credit to the object under which we are to conſider it, viz. the obligation to pay money, either for value received, or for ſome conſideration relative to the parties, which may be the juſt ground of a contract.

Credit and debts are therefore inſeparable, becauſe they neceſſarily imply each other; and very properly come to be examined together in this book.

When money is to be paid at a diſtant period of time, the obligation may either be, for one preciſe ſum; or for that ſum with intereſt, during the interval between contracting and fulfilling the obligation.

The lending of money without intereſt, was very common before the introduction of trade and induſtry. Money then was conſidered as a barren ſtock, incapable of producing fruit; and whenever the quantity of it, in any country, exceeded the uſes of circulation, the remainder was locked up in treaſures: in which caſe, the exacting of intereſt for it appeared unreaſonable.

Things

Things are now changed: no money is ever locked up; and when borrowed, the regular payment of intereſt for it, is as eſſential to the obtaining of credit, as the confidence of being repaid the capital. Theſe periodical payments are a conſtant corroboration of this confidence; ſo that it may be ſaid with truth, that he who can give good ſecurity, to pay to perpetuity, a regular intereſt for money, will obtain credit for any ſum, although it ſhould appear evident, that he never can be in a capacity to refund the capital.

The reaſon of this may be gathered from the principles already deduced, and from the plan of our modern œconomy.

We have ſaid in the ſecond book, that the current money of a country is always in proportion to the trade, induſtry, conſumption, and alienation, which regularly take place in it; and when it happens that the money already in the country is not ſufficient for carrying on theſe purpoſes, a part of the ſolid property, equal to the deficiency, may be melted down (as we have called it) and made to circulate in paper: that as ſoon again as this paper augments beyond this proportion, a part of what was before in circulation, muſt return upon the debtor in the paper, and be realized anew.

Let us now conſider what is underſtood by *realized*.—By this term is meant, that the *regorging* paper, or that quantity of currency which a nation poſſeſſes over and above what is neceſſary for its circulation, muſt be turned into ſome ſhape whereby it may produce an income; for it is now a maxim,

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that no money is to be ſuffered to remain uſeleſs to the proprietor of it *.

When this *regorging* or *ſtagnating* paper then comes upon the debtor in it, if he ſhould pay the value of it in hard ſpecie, how would the condition of the creditor be improved?

We ſuppoſe the credit of the paper equal to the credit of the coin within the country. We alſo ſuppoſe that the paper has ſo ſtagnated in the hands of the bearer, that he can neither lend it, or purchaſe with it any ſpecies of ſolid property, within the country, capable to produce an income: for if any way of diſpoſing it uſefully can be found, this circumſtance will prove that circulation is not overſtocked at that time; conſequently, the money does not regorge. But let us ſuppoſe that it does regorge: then he muſt either oblige the debtor in the paper to pay in coin, that he may lock it up in his coffer (as was the caſe of old); or he muſt ſend his coin to other countries, where circulation is not fully ſtocked, and where an income may be bought with it. This conſtantly happens when circulation is either overſtocked, or when the quantity of circulation begins to diminiſh in a country.

Let me next ſuppoſe, that in a country overſtocked with money, a ſudden demand for it, far beyond the ordinary rate of circulation, ſhall occur: ſuppoſe a war to break out, which abſorbs, in a ſhort time, more money than, perhaps, all the

* The terms *regorging* and *ſtagnating*, are the beſt I can fall upon to expreſs the idea here defined; and therefore I ſhall take the liberty to uſe them in this ſenſe wherever I ſhall have occaſion to ſpeak concerning a *ſuperfluity* of coin or of money.

coin

coin and all the paper can ſupply. The ſtate upon this occaſion impoſes a tax, which, let me ſuppoſe, may produce a ſum equal to the intereſt of the money required. Is it not very certain, that ſuch perſons who found a difficulty in placing their regorging capitals, will be better pleaſed to purchaſe a part of this annual intereſt, than to lend it to any perſon who might pay it back in a ſhort time; by which repayment the lender would again be thrown into the ſame inconvenience as before, of finding a proper out-let for it? This is a way of *realizing* ſuperfluous money, more effectual than turning it into gold or ſilver.

When I ſpeak, therefore, of *realizing* paper money, I underſtand either the converting of it into gold and ſilver, which is the money of the world; or the placing of it in ſuch a way as to produce a perpetual fund of annual intereſt.

Were public borrowing, therefore, to work the effect of bringing the money in circulation below the proportion required for carrying on alienation, trade, &c. then an obligation to repay the capital would be neceſſary, and complaints would be heard againſt the ſtate for not paying off their debts; becauſe thereby the progreſs of induſtry would be prevented. But when the operations of credit are allowed to introduce a method of creating money anew, in proportion as trade and induſtry ſhall demand it, then the ſtate has no occaſion to pay back the capitals; becauſe the public creditors enjoy far better conditions in their annual income, than if their capitals were refunded.

Let me illuſtrate this by an example.

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We muſt take it for granted, that in every nation in Europe, there is a ſum in circulation, nearly equal to the alienation, trade, &c. which goes on actually at the time. We muſt alſo take it for granted, that the amount of all debts whatſoever, public and private, paying intereſt to the claſs of creditors, is every where a very great ſum: now let us ſuppoſe, that the claſs of debtors ſhould be enabled (no matter by what means) to pay off what they owe, in coin newly acquired; would not, by the ſuppoſition, a ſum of the old currency nearly equal to this coin newly acquired, immediately fall into ſtagnation, and would it not be impoſſible to draw any income from this ſtagnated coin? This was exactly the caſe of old. The coin far exceeded the uſes of circulation, and ſtagnated in treaſures.—Wars brought it out; becauſe then circulation augmented; peace again cutting off theſe extraordinary demands, the coin ſtagnated again, and returned to the treaſures.

What is the caſe at preſent?

Money and coin are never found to ſurpaſs the uſes of circulation in commercial countries. When war comes, which demands an extraordinary ſupply, recourſe is had to borrowing upon intereſt; not to treaſures: and the deſire of purchaſing this intereſt, which we call an annuity, draws treaſures even from the enemies of thoſe nations who have the beſt credit. Again, at the end of a war, in place of an empty treaſury, as was the caſe of old, we find a huge ſum of public debts. As œconomy filled the treaſury then, ſo œconomy muſt pay off the debts now.

From

From what has been ſaid, it plainly appears, that intereſt is now become ſo abſolutely eſſential to credit, that it may be conſidered as the principal requiſite and baſis on which the whole fabric ſtands: we ſhall therefore begin by examining the origin and nature of intereſt, and alſo the principles which influence the rate, and regulate the fluctuations of it.

CHAP. III.

Of the Intereſt of Money.

I SHALL leave it to divines and caſuiſts to determine how far the exacting of intereſt for money is lawful, according to the principles of our religion.

It was forbidden to the Jews, by the laws of Moſes, to lend at intereſt to their brethren, but it was permitted to lend to ſtrangers. *Deut.* chap. xxiii. ver. 19, 20. This is one of the wiſeſt political inſtitutions to be met with in ſo remote antiquity, as we ſhall hereafter explain.

In the primitive ages of chriſtianity, the lending of money at intereſt was certainly reputed to be unlawful on moſt occaſions. That ſpirit of charity *to all who were in want*, was ſo worked in with the doctrine of our religion, that a borrower was conſtantly conſidered to be in that ſituation. Trade was little known; trading men were generally ill looked upon; and thoſe who deviated ſo far from the ſpirit of the times, as to think of accumulating wealth by the uſe of their money, commonly degenerated into uſurers.

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In the middle centuries, when a miſtaken zeal animated chriſtianity with a moſt ungodly thirſt for the blood of infidels, the Jews were, in every nation in Europe, almoſt the only money-lenders.—This circumſtance ſtill more engaged the church to dart her thunder againſt this practice; and the loan upon intereſt never took root among chriſtians, until a ſpirit of trade and induſtry ſprung up in Italy in the time of the Lombards, and from thence ſpread itſelf, through the channel of the Hans-towns, over ſeveral nations.

Then the church began to open her eyes, and ſaw the expediency of introducing many modifications, in order to limit the general anathema which ſhe had denounced againſt the whole claſs of money-lenders. At one time it was declared lawful to lend at intereſt, when the capital ſhared any riſque in the hands of the borrower; at another, it was found allowable, when the capital was not demandable from the debtor, while he paid the intereſt: again, it was permitted, when the debtor was declared by ſentence of a judge, to be *in mora* in acquitting his obligation: at laſt, it was permitted on bills of exchange. In ſhort, in moſt Roman catholic countries, intereſt is now permitted in every caſe almoſt, except in obligations including a ſtipulation of intereſt for ſums demandable at any time after the term of payment; and it is as yet no where conſidered to be ſo eſſential to loan, as to be due on all debts whatſoever; not even upon obligations payable on demand.

Expediency and the good of ſociety (politically ſpeaking) are the only rule for judging, when the loan

loan upon intereſt ſhould be permitted, when forbidden. While people borrowed in order only to procure a circulating equivalent for providing their neceſſaries, until they could have time to diſpoſe of their effects; and while there was ſeldom any certain profit to be made by the uſe of the money borrowed, as now, by turning it into trade, it was very natural to conſider the lender in an unfavourable light; becauſe it was ſuppoſed that his money, had it not been lent, muſt have remained locked up in his coffers. But at preſent, when we ſee ſo many people employed in providing ſtores of neceſſaries for others, which, without money, cannot be done; were the loan upon intereſt forbidden, it would have the effect of locking up the very inſtrument (money) which is neceſſary for ſupplying the wants of the ſociety. The loan, therefore, upon intereſt, *as ſociety now ſtands compoſed*, is eſtabliſhed, not in favour of the lenders, but of the whole community; and taking the matter in this light, no one, I ſuppoſe, will pretend that what is beneficial to a whole ſociety ſhould be forbidden, becauſe of its being proportionably advantageous to ſome particular members of it.

If it be then allowed, that the loan upon intereſt is a good political inſtitution, relatively to the preſent ſituation of European ſocieties, the next queſtion is, to determine a proper ſtandard for it, ſo as to avoid the oppreſſion of uſurers, on one hand, and on the other, to allow ſuch a reaſonable profit to the lender, as may engage him to throw his money into circulation for the common advantage.

This

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This queſtion leads us directly to the examination of the principles which regulate the rate of intereſt; and if we can diſcover a certain rule, ariſing from the nature of things, and from the principles of commerce, which may direct a ſtateſman how to eſtabliſh a proper regulation in this matter, we may conclude with certainty concerning the exact limits, between unlawful and pinching uſury, exacted by a vicious ſet of men, who profit of the diſtreſs of individuals; and that reaſonable equivalent which men have a right to expect for the uſe of their money, lent for carrying on the circulation of trade, and the employment of the lower claſſes of a people who muſt ſubſiſt by their induſtry or labour.

CHAP. IV.

Of the Principles *which regulate the Rate of Intereſt.*

WE muſt now recal to mind the principles of demand and competition, ſo fully deduced in the ſecond book, in order to anſwer the following queſtion, viz.

What is the principle which regulates, at all times, the juſt and adequate rate of intereſt for money, in any particular ſtate?

I anſwer, That at all times, there is in every ſtate a certain number of perſons who have occaſion to borrow money, and a certain number of perſons who deſire to lend: there is alſo a certain ſum of money demanded by the borrowers, and a certain ſum

ſum offered to be lent. The borrowers deſire to fix the intereſt as *low* as they can; the lenders ſeek, from a like principle of ſelf-intereſt, to carry the rate of it as high as *they* can.

From this combination of intereſts ariſes a double competition, which fluctuates between the two parties. If more be demanded to be borrowed, than there is found to be lent, the competition will take place among the borrowers. Such among them as have the moſt preſſing occaſion for money, will offer the higheſt intereſt, and will be preferred. If, on the contrary, the money to be lent exceed the demand of the borrowers, the competition will be upon the other ſide. Such of the lenders, as have the moſt preſſing occaſion to draw an intereſt for their money, will offer it at the loweſt intereſt, and this offer will be accepted.

I need not launch out into a repetition of what has been ſaid concerning the influence of double competition, in fixing the price of commodities; as I ſuppoſe theſe principles to be now well underſtood, and well retained, by thoſe who read this chapter; I ſhall therefore confine myſelf here to what is peculiar to the demand for money.

The price of commodities is extremely fluctuating: they are every one calculated for particular uſes; money ſerves every purpoſe. Commodities, though of the ſame kind, differ in goodneſs: money *is* all, or *ought to be* all of the ſame value, relatively to its denominations. Hence the *price of money* (which is what we expreſs by the term *intereſt*) is ſuſceptible of a far greater ſtability and uniformity, than the price of any other thing.

We

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We have ſhewn in the 28th chapter of the ſecond book, in examining the principles which regulate the price of ſubſiſtence, that the only thing which can fix a ſtandard for it, is frequent and familiar alienation. The ſame holds true of money. Were we to ſuppoſe a ſtate, where borrowing and lending are not common, and where the laws fix no determinate intereſt for money, it would hardly be poſſible to aſcertain the rate of it at any time. This was the caſe of old.

Before the reign of Henry VIII. of England, in 1545, there was no ſtatute regulating the rate of intereſt, in that kingdom. The reaſon is very plain. In thoſe days there was little circulation, and the borrowing of money upon intereſt was conſidered as a mortal ſin. The conſequence of this was, that uſurers, having nothing but conſcience to reſtrain them, carried the price of their money to a level with the preſſing occaſion of ſpendthrifts, while others, from friendſhip, lent for no intereſt at all. Henry fixed the rate of intereſt at 10 *per cent.* and his cotemporary, Francis I. of France, in 1522, (who was the firſt who borrowed money in a regular manner upon the town-houſe of Paris) fixed the intereſt at the 12th penny, that is, at $8\frac{1}{3}$ *per cent.*

In thoſe days, it was impoſſible for a ſtateſman to determine any juſt rate for intereſt; and accordingly we find hiſtory filled with the extortion of uſurers, on one hand, and the violence and injuſtice of Princes and miniſters towards thoſe who had lent them money, on the other: was it then any wonder, that lending at intereſt was univerſally cried out againſt? It really produced very little good, and

and was the cauſe of manifold calamities to a ſtate. When the Prince borrowed, it was in the moſt urgent diſtreſs: thoſe who had money, foreſaw the danger of being plundered if they refuſed to lend it to him, and of being defrauded as ſoon as the public diſtreſs was over: for this reaſon they exacted the moſt exorbitant intereſt: the conſequence was, that the people were loaded with the moſt grievous taxes, and the tax-gatherers were the Prince's creditors, to whom ſuch taxes were aſſigned.

In our days, trade, induſtry, and a call for money, enable the borrower to enrich himſelf, to ſupply the wants of the ſtate, and to pay his intereſt regularly.

If we compare the two ſituations, we ſhall find every diſadvantage attending the former, and every advantage connected with the latter.

Without good faith their can be no credit; without credit there can be no borrowing of money, no trade, no induſtry, no circulation, no bread for the lower claſſes, no luxury, not even the conveniences of life, for the rich. Under theſe circumſtances, there can be no rule for the rate of intereſt; becauſe borrowing cannot be frequent and familiar.

In proportion, therefore, as borrowing becomes frequent and familiar, the rule for fixing the rate of a legal intereſt becomes more practicable to a ſtateſman. Let me make a ſtep farther.

We have ſaid, that it is the fluctuation of the double competition between borrowers and lenders, which occaſions the riſe and fall of the rate of intereſt; I muſt now point out the principles which occaſion this fluctuation.

Were

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Were the intereſts of trade and induſtry ſo exactly eſtabliſhed, as to produce the ſame profit on every branch of them, the money borrowed for carrying them on, would naturally be taken at the ſame rate; but this is not the caſe: ſome branches afford more, ſome leſs profit. In proportion, therefore, to the advantages to be reaped from borrowed money, the borrowers may offer more or leſs for the uſe of it.

Beſides the claſs of men who borrow *in order to profit* by the loan, there is another claſs, who borrow *in order to diſſipate*. The firſt claſs never can offer an intereſt which exceeds the proportion of their gains: the ſecond claſs, finding nothing but want of credit to limit their expence, become a prey to uſurers. Were it not then upon account of theſe laſt, there would be no occaſion for a ſtatute to regulate the rate of intereſt. The profits on trade would ſtrike an average among the induſtrious claſſes; and this average would fall and riſe, in proportion to the flouriſhing or decay of commerce.

Let us next examine the principles which prevent the monied men from committing extortions, and which oblige them to lend their money for that rate of intereſt which is in proportion to the profits upon trade and induſtry.

In every country there is found a ſum of money (that is, of circulating value, no matter whether coin or paper) proportioned to the trade and induſtry of it. How this ſum is determined, and how it is made to augment and diminiſh in proportion to induſtry, we have already explained in the 26th chapter of the ſecond book: we are now to examine

examine ſome of the conſequences which reſult from the accidental ſtagnation of any part of it to the prejudice of alienation; and we muſt ſhew how the loan upon intereſt is the means of throwing it again into circulation.

There are in every ſtate ſome who ſpend more, and ſome who ſpend leſs than their income. What is not ſpent muſt ſtagnate; or muſt be lent to thoſe who ſpend more than the produce of their own funds. Were the firſt claſs found ſo to preponderate, as to require more money to borrow than all that is to be lent, the conſequence would be, to prevent the borrowing of merchants; to raiſe intereſt ſo high as to extinguiſh trade; and to deſtroy induſtry; and theſe reſources coming to fail, foreign commodities would be brought in, while exportation would be ſtopped, money would diſappear, and all would fall into decay.

This, I believe, is a caſe which ſeldom happens; becauſe the riſe of intereſt (as ſtates are now formed) has ſo much the effect of depreciating the value of every ſpecies of ſolid property, that ſpendthrifts are quickly ſtripped of it, by the growing accumulation of that canker worm, intereſt; their ruin terrifies many from following ſo hurtful an example, and their property falling into the hands of the other claſs, who ſpend leſs than their income; theſe new poſſeſſors introduce, by their example, a more frugal ſet of manners. This may be the caſe in countries where trade and induſtry have been introduced; and where the operations of credit have been able to draw into circulation a large quantity of ſolid property, according to the principles deduced in

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in the chapter above referred to. But in nations of idleneſs, who circulate their coin only, and who are deprived of the reſource of credit; high intereſt prevents them from emerging out of their ſloth, and the little trade they have, continues to produce great profits, which are incompatible with foreign commerce: this may, indeed, make the coin they have to circulate for home-conſumption, but it can bring no augmentation of wealth from abroad.

On the other hand, when trade and induſtry flouriſh, and when a monied intereſt is formed, in conſequenee of the melting down of ſolid property, and ſtill more in conſequence of a State's contracting great debts; were the money-lenders to attempt to raiſe the rate of intereſt to the ſtandard of the ſpendthrift, the demands of trade, &c. would ſoon be cut off: the ſtagnation would then ſwell ſo faſt in their hands, that it would in a manner choak them, and in a little time intereſt would fall to nothing. Whereas by contenting themſelves with the ſtandard of trade, the largeſt ſupplies (provided for the borrowers) eaſily find a vent, without raiſing the rate of intereſt ſo high as to be hurtful to any intereſt within the ſtate.

Add to this, that the advantage of realizing, into lands, ſo unſtable a property as money, muſt naturally throw the proprietors of the money into a competition for the lands which diſſipation brings to market; thus, by raiſing the value of lands, the monied men, with their own hands, defeat the conſequences of the diſſipation of ſpendthrifts, and hurt their own intereſt, to wit, the riſe of the price of money. From a combination of theſe circumſtan-

ces, lenders become obliged to part with their money at that rate of intereſt which is the moſt conſiſtent with that good of commerce.

We have hitherto preſerved our combinations as ſimple as poſſible. We have ſuggeſted no extrinſic obſtacle to borrowing and lending. If money be to be lent, and if people be found who incline to borrow, we have taken it for granted, that circulation will go on; and that the ſtagnations in the hands of the lenders, will find a ready vent by the diſſipation of the other claſs: we muſt now make ſtill a ſtep farther.

The ſpendthrifts muſt have credit; that is, they muſt have it in their power to repay with intereſt what they have borrowed: any impediment to credit, will have the effect either of diminiſhing the demand for money, and conſequently of lowering the rate of intereſt, or of introducing unlawful uſury. If we ſuppoſe the rate of intereſt well determined, and uſury prevented by a regular execution of good laws, it is very certain, that a ſtateſman by hurting the credit of extravagant people, will keep the rate of intereſt within due bounds.

If, therefore, the laws of any country, in our days, appear defective, as to the regulation of ſecurities for money lent upon the mortgage of ſolid property, while the rate of intereſt ſtands higher than is conſiſtent with the good of trade, and with public credit; we ſhould be ſlow in finding fault with ſuch a defect. The motives of ſtateſmen lie very deep; and it is not always proper to explain them. An example of ſuch defects are entails upon lands, and the want of proper regiſters for mortgages.

Did the diſſipation of landed men tend to promote foreign trade, ſuch clogs would be pernicious: but if the tendency of diſſipation be to promote domeſtic luxury only, and thereby to raiſe the price of labour and induſtry, the caſe is widely different. This obſervation is merely incidental: our object at preſent extends no farther than to ſhew, that the diſſipation of landed men, and the credit they have to borrow money, influence, not a little, the rate of intereſt in every modern ſtate.

Theſe are the general principles which, ariſing from things themſelves, without the interpoſition of a ſtateſman, tend to regulate the rate of intereſt in commercial nations.

CHAP. V.

Of the Regulation of Intereſt by Statute.

FROM the principles deduced in the preceding chapter, we have ſeen how, without the aid of any law, the intereſt of money, *in a trading nation*, becomes determined, from natural cauſes, and from the irreſiſtible effects of competition.

But as there is no country in the world ſo entirely given to commerce, as not to contain great numbers of people, who are totally unacquainted with it, ſome regulation with reſpect to the rate of intereſt becomes neceſſary in order to reſtrain, on one hand, the frenzy of thoſe, who, liſtening to nothing but the violence of their paſſions, are willing to procure money at any rate for the gratification of them, let the

the political conſequences of their diſſipation prove ever ſo hurtful to the ſtate; and on the other, to protect thoſe who, from neceſſity, may be obliged to ſubmit to the heavy oppreſſion of their uſurious creditors.

Laws reſtraining uſury, are directly calculated for the ſake of thoſe two claſſes, not engaged in commerce, and indirectly calculated for commerce itſelf; which otherwiſe might receive a wound through their ſides.

In entering upon the ſubject mentioned in the title of this chapter, I think we may agree in this, that hitherto all regulations made concerning intereſt, have been calculated either for bringing it down, or for preventing its riſe. The diſtreſs which may come upon a ſtate, by its falling too low, is a phænomenon which has not yet manifeſted itſelf in any modern ſtate, by any ſymptom I can at preſent recollect.

Now if it be true, as I think it has been proved, that the operations of demand and competition work irreſiſtible effects in determining the rate of intereſt in commercial ſtates; the ſtateſman who is about to make a regulation, muſt keep theſe principles conſtantly in his eye.

If we examine the writings of thoſe who have treated of this ſubject with intelligence (among whom, I think, Sir Joſiah Child has a right to ſtand in the foremoſt rank), we ſhall find very little attention beſtowed upon that moſt neceſſary and ruling principle, competition.

He lays it down as an axiom, that low intereſt is the ſoul of trade, in which he is certainly right;

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but he ſeems to think, *that it is in the power of a legiſlature, by ſtatute, to bring intereſt down to that level which is moſt advantageous to trade;* and in this I differ from him. I muſt do him the juſtice to ſay, that he no where directly affirms this propoſition; but by ſuggeſting none of the inconveniences which may follow upon an arbitrary reduction of intereſt by ſtatute, he leaves his reader at liberty to ſuppoſe, that the lowering of it is ſolely in the hands of a ſtateſman.

It is very plain, from the hiſtory he has given us of the ſucceſſive rates of intereſt in England, from 10 to 6 *per cent.* that without the interpoſition of ſtatutes, ſuch diminutions would not, *in that period*, have taken place, from the principle of competition: but I am not ſo clear that, *at this time*, when trade is ſo well underſtood, and credit ſo generally eſtabliſhed in many nations of Europe, that a like adminiſtration would work effects equally advantageous.

It is with great diffidence I preſume to differ from Child upon this ſubject; and I find a ſenſible ſatisfaction in perceiving that upon the whole, my principles bring me ſo very near to his ſentiments on this matter.

The ſtrong arguments in favour of Child's opinion, are grounded upon facts. He ſays, that when intereſt was brought down by ſtatute, 1625, from 10 to 8 *per cent.* inſtead of producing any bad effect, it had that of bringing it ſtill lower immediately afterwards; and the ſame thing happened, *anno* 1650, when it was reduced a ſecond time by ſtatute, from 8 to 6 *per cent.* at which rate it ſtood at the

the time he wrote. Theſe facts I give credit to, and ſhall now account for them, from the conſequences of ſudden revolutions.

When a law is made for the reduction of intereſt, all debtors immediately profit by it. Upon this, the creditors muſt either ſubmit, or call in their capitals. If they ſubmit, land immediately riſes in its value. If they call in their capitals, they muſt have an outlet for lending them again, beyond the limits of the juriſdiction of the legiſlature. Now this outlet was not then to be found; becauſe credit was no where well eſtabliſhed, except in Holland, where intereſt was ſtill lower.

They were, therefore, obliged to ſubmit, and thus intereſt was violently brought down by ſtatute; and a great advantage reſulted from it to the commercial intereſts of England.

The ſubſequent fall of intereſt, in the natural way, is thus eaſily accounted for.

The conſequence of lowering the intereſt, was, that the price of land roſe ſeveral years in purchaſe: the landed men, who had long groaned under the heavy intereſt of 10 *per cent.* finding their lands riſe from 12 years' purchaſe to 15, upon reducing the intereſt to 8 *per cent.* ſold off part of their lands, and cleared themſelves. The natural conſequence of this was, to make money regorge in the hands of the monied men; to diminiſh the number of borrowers; and conſequently, to bring the rate of intereſt ſtill lower.

One ſudden revolution produces another. When intereſt is brought down by ſtatute, the price of land muſt riſe by a jerk; and landed men will ſud-

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denly profit of the change in their favour. When it falls gently, by a natural revolution in the ſtate of demand, the effects are more inſenſible; the ſharper ſighted only profit of it; others, from expectation of a ſtill greater riſe in the price of their lands, neglect to ſell in the proper point of time; and may perhaps be diſappointed from a new fluctuation in favour of money. This is at preſent actually the caſe in Great Britain, ſince the peace of 1762. I write in 1764.

Theſe facts ſpeak ſtrongly in favour of Child's opinion, namely, that it is expedient to have recourſe directly to the ſtatute, whenever there is a proſpect of advancing the intereſts of trade by a reduction of intereſt.

It is impoſſible to reply to matters of fact: all, therefore, I have to allege in favour of my own opinion, is, that it is more conſiſtent with the very principles in which both Child and I agree; it implies no ſudden revolution, and will, in a ſhort time, operate the ſame effect.

The method of proceeding, according to my principles, is ſhortly this:

Since it is agreed on all hands, that low intereſt is the ſoul of trade, and the firmeſt baſis of public credit; that it riſes in proportion to the demand of borrowers, and ſinks in proportion as money is made to regorge in the hands of the monied intereſt;

The ſtateſman ſhould ſet out by ſuch ſteps of adminiſtration as will diſcourage borrowing in thoſe who employ their money in prodigality and diſſipation, as far as may be conſiſtent with the intereſt of

the lower claſſes employed in ſupplying home conſumption, according to the principles laid down in the ſecond book. He ſhould abſtain from borrowing himſelf, and even from creating new outlets for money, except from the moſt cogent motives. By this he will, in a ſhort time, gently reduce the rate of intereſt. Then by ſtatute he may bring it down a little, but not ſo very low as the foregoing operations may have reduced it; contenting himſelf with having farther reſtricted the extent of the ordinary fluctuations.

As for example: let us ſuppoſe intereſt limited by law to 5 *per cent.* and that by good management the ſtate may be enabled to borrow eaſily at 3 *per cent.* I believe there would reſult a notable advantage, in reducing the legal rate to 4 *per cent.* and were it brought down to 3 *per cent.* there might follow a very great inconvenience to landed men, in caſe a war ſhould ſuddenly occaſion a revolution in favour of money.

The difference then between Child and me, is, that I am more ſcrupulous than he, in introducing reſtraint into political œconomy; and my only reaſon againſt applying the ſtatute, as he propoſes, is for fear of the immediate bad effects which might follow (in many ways impoſſible to be foreſeen) upon a ſudden and violent revolution, in a point ſo exceſſively delicate as public credit.

In his days, credit was not ſo well eſtabliſhed, nor was it ſtretched as at preſent: it was more accuſtomed to violent ſhocks, and could bear a rougher treatment. But in order to come the better to a thorough knowledge of this matter, let us

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examine what might be the conſequence, if Great Britain ſhould, at this time, bring down, by ſtatute, the rate of intereſt *below the level of the ſtocks*, which I take to be the beſt rule for determining the preſent value of money; and this is alſo the beſt method of examining the expediency of Child's method of reducing intereſt, under the preſent ſtate of all our political circumſtances.

CHAP. VI.

What would be the Conſequence of reducing, by a Britiſh Statute, the legal Intereſt of Money below the preſent level of the Stocks.

WHEN Great Britain borrows money upon the public faith, the rate of intereſt is always ſtipulated, and theſe ſtipulations muſt be religiouſly fulfilled, or credit will be at an end.

The regulations then propoſed to be made, muſt refer to contracts of loan entered into by private parties only.

The current value of money, I think, is beſt to be determined by the price of ſtocks. If a 4 *per cent.* ſells at par, money may be ſaid to be then at 4 *per cent.* If the ſame ſtock fall to 89, then the value of money riſes to near $4\frac{1}{2}$: if the ſame ſtock riſe to 114, then the value of money falls to about $3\frac{1}{2}$; and ſo in proportion.

According, therefore, as ſtock is found to riſe, the price of money falls, and *vice verſa*.

Suppoſe

Suppoſe, then, the price of mone to be at 4 *per cent.* and that government ſhould paſs a law, forbidding any man to lend at above 3 *per cent.* what would be the conſequence? This is exactly the expedient propoſed by Child: money then was at 6 *per cent.* and he propoſes, *by a law*, to bring it, all at once, to 4 *per cent.* without alleging that money was then commonly got by private convention at ſo low a rate.

Would not the conſequence be, that the creditors of private people would demand their money, in order to get 4 *per cent.* in buying ſtock, and would not this additional demand for ſtocks make them riſe? I anſwer in the affirmative, unleſs money could be employed abroad, ſo as to produce at leaſt 4 *per cent.* to the lenders, free of all charge of commiſſion, &c. If it could not, I have little doubt, but that money would ſoon fall to the legal intereſt of 3 *per cent.* land would riſe to 40 years purchaſe; and landed men would profit of the riſe, as Child ſays was the caſe in his time. The whole inconvenience would be limited to the immediate effects of the ſudden revolution; which would occaſion ſo great a demand upon the landed intereſt for the capitals due by them as to reduce them to an utter incapacity of anſwering it. This might be, in ſome meaſure, prevented, by a clauſe in the act, allowing a certain time for the liquidation of their debts. But who will pretend to foretel the immediate conſequences of ſo great a ſtagnation of credit, and borrowing on land ſecurity? The purſes of all monied people, would, for ſome time at leaſt, be faſt ſhut againſt their demand. What a ſhock again, would

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would this be to all inland trade, what a diſcouragement to all the manufacturing intereſt, what diſtreſs upon all creditors for accounts furniſhed, and upon thoſe who ſupply daily wants! I think, that although in a year or two, the firſt effects might come to diſappear, and a notable advantage reſult, in the main, to the commercial intereſt of Great Britain, yet the diſtreſs in the interval might prove ſo hurtful, as to render it quite intolerable. The common people who live by the luxury of the rich, in the city of London, and who are conſtantly actuated by the immediate feelings of preſent inconveniences, might loſe all patience; and being blown into a ferment, by the addreſs of the monied intereſt (whoſe condition would be made to ſuffer by the ſcheme) might throw the ſtate into confuſion, and even impreſs the nation with a belief, that high intereſt for money, inſtead of being hurtful, was eſſential to their proſperity.

I have ſaid above, that if we ſuppoſe that the money drawn from debtors, could not be placed abroad, free of all deductions, at a rate equal to the then value of money (ſuppoſed for the ſake of an example, to be at 4 *per cent.*), then money would fall to 3 *per cent.* and the ſtocks would riſe in proportion.

But let us ſuppoſe (what perhaps is the matter of fact) that the extenſive operations of trade and credit, do actually fix an average for the price of ſtocks, from the value of money in other nations in Europe. Would not then the conſequence of bringing down the rate of legal intereſt, below this level, be, to ſend out of the kingdom all the

money now circulating on private ſecurity, real and perſonal? Would not this deſtroy all private credit at one blow? Would it not have the effect of preventing, among individuals, the loan upon intereſt altogether? What would become of the bank of England, and all other banks, whoſe paper in circulation is all in the hands of private people? Is not every man who has a bank note, a creditor on the bank? And would not the ſame intereſt which moved other creditors to exact their debts, under ſuch circumſtances, alſo move many holders of bank notes to demand payment of them? Would not a run of this nature, for a few weeks only, throw the whole nation into the moſt dreadful diſtreſs? May we not even ſuppoſe, that upon ſuch an occaſion, the monied intereſt *(from a certainty of diſappointing the intention of government in making the law)* might form a concert among themſelves to lock up their money, even although it ſhould remain dead in their hands for a few months? What would then become of the improvement of land? Is there an induſtrious farmer any where to be met with, who does not borrow money, which he can ſo profitably turn to account upon his farm, even though he receive it at the higheſt legal intereſt? Theſe and many more inconveniences *might* manifeſt themſelves, were government to force down the value of money, beyond the ordinary operations of demand and competition: and to what purpoſe have recourſe to authority, when it is moſt certain, that without any ſuch expedien the ſame end may be compaſſed?

If

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If it be true, as I believe it is, that the funds, or public debts of a ſtate where credit is well eſtabliſhed, are commonly negotiated abroad; there muſt, from ſuch negotiations reſult an average for the value of money, by the operations of credit over the commercial world: and if it be true, that no law can be framed ſo as to reſtrain mercantile people, and thoſe who trade in money, from turning it to the beſt account; then all that ſhould be propoſed by government, is, to preſerve the value of it at home, within this ſtandard. For which purpoſe, nothing more is neceſſary than to prevent the competition of the diſſipating claſs of inhabitants, from diſturbing the rate which commerce may eſtabliſh from time to time. This is accompliſhed by the methods above hinted at, and which in the next chapter ſhall be more largely inſiſted on. If, by prudent management, the *conventional* rate of intereſt, can thus be brought below the *legal*, then there may be no harm in diminiſhing the latter by ſtatute, not however *quite* ſo low as the conventional ſtandard; but ſo as to leave a reaſonable latitude for gentle fluctuations above it. From what I have ſaid, I ſtill think I had reaſon to object to Child's plan for forcing down the intereſt of money by ſtatute: and had he lived to the preſent time, I am perſuaded he would have come into this opinion.

CHAP. VII.

Methods of bringing down the Rate of Intereſt, in Conſequence of the Principles of Demand and Competition.

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I HOPE the arguments uſed in the foregoing chapter will not be conſtrued as an apology for the high intereſt of money.

I entirely agree with Sir Joſiah Child, that low intereſt is the ſoul of trade; the moſt active principle for promoting induſtry, and the improvement of land; and a requiſite, without which it is hardly poſſible that foreign commerce can long be ſupported.

This propoſition I take to be at this time univerſally admitted to be true; and did there remain, concerning it, the leaſt doubt in the mind of any one, the writings of many, much better qualified than I can pretend to be, and among the reſt thoſe of the author juſt now cited, are ſufficiently capable to remove it. I ſhall not therefore trouble my reader with a chapter upon this head, but only obſerve, that the terms *high* and *low* are conſtantly relative. Here the relation muſt be underſtood to regard other ſtates, becauſe when we ſpeak of a *rate* of intereſt, we are ſuppoſed to mean ſomething general in the country we are ſpeaking of: accordingly, if we could ſuppoſe that, within the ſame ſtate, the rate of intereſt ſhould be lower in one city than any where elſe, this circumſtance would

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give an advantage to such a city in all its mercantile operations.

I must farther observe, for the sake of connecting this part of our subject with our general plan, that the low interest for money is most essential to such states as carry on the most extensive foreign commerce.

In the infancy of industry, and before trade comes to be established, it is very natural that the coin of the country should be found in a great measure locked up in treasures: high interest tends to bring it forth, and in this respect works a good effect.

In proportion as alienation augments, money may be multiplied, by the melting down of solid property, as has been explained; and then the business of a statesman will be to contrive expedients for bringing the rate of it as low as possible, in order to support foreign trade, and to rival all neighbouring nations, where interest is higher. When foreign trade again comes to decline, from the multiplication of abuses introduced by luxury, low interest still continues to be useful, for supporting public credit, so necessary for defending a nation against her enemies.

If money consisted merely in the precious metals, which are not to be found in every country, but must be purchased with the produce of industry, and brought from far; and if no other expedient could be fallen upon to supply their place for the uses of circulation; then the possessors of these metals would in a manner be masters to establish for the use of them what rate of interest they thought fit.

But

But if this be not the caſe, and if money can be made of paper, to the value of all the ſolid property of a nation, (as far as occaſion is found for it, by the owners of that property,) the uſe of the metals will be in a manner reduced to that of ſerving as a ſtandard, for aſcertaining the value of the denominations of money of accompt; perhaps for facilitating the circulation of ſmall ſums, and for paying a balance of trade to other nations.

When this comes to be the caſe, a ſtateſman has it in his power to increaſe or diminiſh the extent of credit and paper money in circulation, by various expedients, which greatly influence the rate of intereſt.

The progreſs of credit has been very rapid ſince the beginning of this century. This has been almoſt entirely owing to the mechanical contrivances of trading men. Lawgivers have hitherto had but imperfect notions concerning the nature of it; and there ſtill remains, in the womb of nature, ſome mighty genius, born to govern a commercial nation, who alone will be able to ſet it on its true principles. Let us in the mean time ſpeculate concerning them.

We have ſaid, and every one feels, that intereſt falls in proportion to the redundancy of money to be lent.

Now what is this money but property, of one kind or other, thrown into circulation? I ſpeak of trading nations, who are not confined to the quantity of their ſpecie alone.

When a man of property wants money, may he not go to a bank, which lends upon mortgage, and by

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by pledging his ſecurity, receive money, which is in the ſame inſtant created for his uſe? Do not thoſe notes circulate as long as they are found neceſſary for carrying on the affairs of the nation? that is to ſay, the accompts of debtors and creditors of all denominations; and as ſoon as the quantity of them exceeds this proportion, they ſtagnate, and return on the debtors in them, (the bank,) who is enabled to realize them, becauſe the original ſecurity is ſtill in their hands, which was at firſt pledged when the notes were iſſued. This realization is commonly made in the metals; becauſe they are the money of the world: they are real and true riches, as much as land; and they have this advantage over land, that they are tranſportable everywhere.

Now, does it not appear evident, that what we have been deſcribing is a round-about operation, which it is poſſible to ſhorten?

I beg of my reader, to attend to one thing; namely, that I am not here treating of, or propoſing a plan, but labouring to deduce principles in an intricate ſubject.

I ſay, when landed men go to ſuch a bank, and receive paper for a land ſecurity, that this operation may be ſhortened.

Do not the notes he gets ſtand (though this be not expreſſed) upon the ſecurity of his land? Now, can any man aſſign any other reaſon but cuſtom, why his own notes, carrying expreſsly in their boſom the ſame ſecurity, might not be iſſued, without his being obliged to interpoſe the bank between the public and himſelf: And for what does he pay this

this intereſt? Not becauſe he has gratuitouſly received any value from the bank, ſince in his obligation he has given a full equivalent for the notes; but the obligation he has given carries intereſt, and the notes carry none. Why? Becauſe the one circulates like money, the other does not. For this advantage, therefore, of circulation, not for any additional value, does the landed man pay intereſt to the bank.

Had landed men, and not merchants, invented this method of turning their property into circulation, and had they been all aſſembled in one body, with a legiſlative authority, I imagine they would have had wit enough to find out that a land bank was a thing practicable in its nature.

Suppoſe they ſhould agree that all their lands ſhould be let by the acre, and that land property ſhould be eſteemed at a certain number of years purchaſe, in proportion to the rate of intereſt at the time, where would be the great difficulty in paying in lands?

This is merely a hint, to which a thouſand objections may be made, as matters ſtand: all I ſay, is, that there is nothing here againſt principles; and though inconveniences might reſult to the landed intereſt, in every way ſuch a plan could be laid down; yet ſtill theſe inconveniences would hardly counterbalance that of landed men's being obliged to pay intereſt for every penny they borrow.

It is demanded, what advantage would reſult to the nation from ſuch a regulation?

I anſwer, that by it all the borrowings of landed men would be ſtruck out of the competition at the

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money-market. The monied intereſt alone would borrow among themſelves for the purpoſes of trade, (for monied men do not borrow to ſquander,) and landed men would conſequently pay with their own paper, in every caſe, where now they borrow in order to pay. Thus intereſt would be regulated by the demands of trade, and the rate of it would not be diſturbed by the competition of ſpendthrifts.

Who can ſay how far the conſequences of ſuch a ſcheme might reach? Might not landed men begin in time to iſſue notes by way of loan, at a very inconſiderable intereſt? But I am not diſpoſed to carry my ſpeculations farther: perhaps what has been ſaid may appear ſufficiently aërial.

If a ſtateſman ſhall find every modification of this idea impracticable; either from his own want of power, or of ſkill, or, which is more probable, from the oppoſition of the monied intereſt; he muſt take other meaſures for ſtriking out, as much as poſſible, the competition of ſpendthrifts in the money-market. Entails, and lame ſecurities, are good expedients; though they are productive of many inconveniences. His own frugal œconomy in ſtate affairs will go much farther than any ſuch trifling expedients.

Did a nation enjoying peace, although indebted perhaps 140 millions ſterling, begin by paying off but 2 *per cent.* of their capital yearly, beſides the current intereſt; while no neighbouring ſtate was borrowing any; what would intereſt fall to in a ſhort time! It may be anſwered, that the conſequence would be, to enrich other nations; becauſe

the

the money regorging at home, would be ſent abroad. To which I reply, by aſking how any ſtate can be enriched by their borrowing? And in what does ſuch lending to foreigners differ from the nation's paying off their foreign creditors? Will not the return of intereſt from abroad compenſate, *pro tanto*, the ſums ſent out for the like purpoſe?

But if it be ſaid, that the conſequence will be to enable other nations to bring down their own rate of intereſt; I allow it to be ſo; and ſo much the better, as long as it remains proportionally lower with us; which it muſt do, as long as we can lend abroad. We have ſaid, and I believe with truth, that as credit is now extended, a general average is ſtruck every where upon the value of money well ſecured, conſequently, the lower that intereſt is reduced abroad, the lower ſtill will it remain, at home, as long as merchants and exchangers do ſubſiſt.

From this circumſtance of the average on the rate of intereſt, the Dutch muſt, I think, have loſt the great advantage they formerly enjoyed, from the low rate of it in Holland, relatively to other nations.

In Child's time, the Dutch were familiarly buying up ſugars in London, above the price paid by Engliſh ſugar-bakers; and, notwithſtanding the additional freight and charges, they grew rich by their trade, while the others were hardly making any profit. This he accounts for from the low rate of their intereſt. He ſuppoſes both Dutch and Engliſh to have carried on this trade with borrowed

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money; for which the firſt paid 3 *per cent.* and the other 6 *per cent.*

But at preſent, were it poſſible to get 6 *per cent.* for money in London, what Dutchman would lend his father a ſhilling at 3 *per cent.?* The Engliſh ſtocks are as currently bought and ſold, nay, all the ſtockjobbing tricks are practiſed with the ſame ſubtlety at Amſterdam as in Change-Alley: from which I conclude, that a great part of the advantage of low intereſt is now loſt to that nation; and I conclude farther, that it is the common intereſt of all trading nations to bring intereſt as low as poſſible every where.

Another cauſe of high intereſt proceeds from certain clogs laid upon circulation, which flow merely from cuſtom and prejudice. Of this nature is the obligation laid upon debtors to pay in the metals, nothing but coin being a legal tender.

The only reaſon for ſuch a regulation was the precarioufneſs of credit in former times. Were all the circulating paper in a nation ſecured by law, either upon the lands or revenue of the country appropriated for that purpoſe, there could be no injuſtice or inconvenience in making paper (ſo ſecured) a legal tender in all payments. Again, how extraordinary muſt it appear to any reaſonable man, that the ſame paper which paſſes on one ſide of a river, running through the ſame country, ſhould not paſs on its oppoſite bank?

The reaſon of this is indeed very plain: the ſubaltern juriſdictions on each ſide are different; and the debtors in the paper are different: but if the paper

paper of both ſtood upon a ſecurity equally good, what is to hinder both to be received as a legal tender in all payments over the kingdom? Should not little private objects of profit among bankers (who are the ſervants of the ſtate, and who are ſo well paid for their ſervice) be over-ruled, when the conſequences of their diſputes are found to be ſo hurtful? But of this more, when we come to ſpeak of banks.

The only occaſion where a large quantity of coin is neceſſary in the liquidation of paper, is for payment of the balance of trade with foreign nations. Of this alſo we ſhall treat more at large, when we come to the doctrine of exchange. But ſurely nothing can be ſo ill judged, as to create an imaginary balance within the ſame ſtate; or rather, to permit money-jobbers to create it; at the expence of raiſing intereſt, and hurting trade, in the very places where it ſtands moſt in need of encouragement.

From theſe principles, and others which naturally flow from them, may a ſtateſman ſteer a very certain courſe, towards bringing the rate of intereſt as low as the proſperity of trade requires, or the principles of double competition between borrowers and lenders will permit.

CHAP. VIII.

Is the Rate of Intereſt the certain meaſure of the State of Commerce?

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SOME political writers are fond of every expedient to reduce within a narrow compaſs many queſtions, which being involved in intricate combinations, cannot be reduced to one principle. This throws them into what I call ſyſtems; of which we have an example in the queſtion now before us.

There is nothing more difficult than to determine how far commerce runs favourably, and how far unfavourably for a nation. This would not be the caſe, were the rate of intereſt the certain meaſure of it. I have found it however advanced, that nothing more is neceſſary to be known, in order to eſtimate the relative profits upon the foreign trade of two nations, than to compare the common rate of intereſt in both, and to decide the preference in favour of that nation where it is found to be loweſt.

We may ſay concerning this propoſition, as concerning the courſe of exchange; that the lowneſs of intereſt and of the price of exchange are both exceedingly favourable to trade; but they are no adequate meaſure of the profits ariſing from it.

The beſt argument in favour of this opinion with regard to intereſt is, that the nation which ſells the cheapeſt at foreign markets is conſtantly preferred; and, conſequently, where the uſe of money is the loweſt, the merchant can ſell the cheapeſt.

I anſwer, that this conſequence *would* be juſt, were all trade carried on with borrowed money, were the difference of the price of the materials or firſt matter, the eaſe of procuring them, the promptitude of payments, the induſtry of the manufacturer, and his dexterity, all reckoned for nothing. But ſuch advantages are frequently found in theſe articles, as to be more than ſufficient to counterbalance the additional intereſt which may be paid for the money employed in trade. This is ſo true, that we ſee the dexterity alone of the workman (living in an expenſive capital, where the charge of living may be double of what it is in the country) enabling him to underſell his competitors every where: the ſame may be true with regard to the other articles. Farther, how abſurd is it to ſay, that all *trade* is carried on with borrowed money? A very inconſiderable part of trade is carried on with borrowed money, in any country in Europe; and that part, which is carried on with borrowed money, is not ſo much clogged by the high rate of intereſt, as by want of punctuality in payments. A merchant who can turn his money in three months, borrows as cheaply at 6 *per cent.* as another who turns his in ſix months, when he borrows at 3 *per cent.*

The object of trade is produce and manufacture. Theſe are prepared for the market by farmers and tradeſmen. Let us compare the value of them, when ſold at market to the merchant, with the intereſt of the money borrowed by the farmers and tradeſmen, in order to carry on their induſtry, and we ſhall find that the intereſt paid by them, bears

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hardly any proportion at all, to the value of what they produce. Example. A ſheep borrows no money in order to produce wool; ſpinners and weavers borrow no money in order to enable them to ſpin and to weave. Thus the whole manufacture comes to market without any charge for intereſt.

Do we not ſee every day, that ingenious workmen, who obtain credit for very ſmall ſums, are ſoon enabled, by the means of their own induſtry, to produce a ſurpriſing value in manufactures, and not only to ſubſiſt, but to increaſe in riches? The intereſt they pay for the money borrowed is inconſiderable, when compared with the value, created (as it were) by the proper employment of their time and talents.

If it be ſaid, that this is a vague aſſertion, ſupported by no proof; I anſwer, that the value of a man's work may be eſtimated by the proportion between the manufacture when brought to market, and the firſt matter. Nothing but the firſt matter, and the inſtruments of manufacture, can be conſidered as the objects of borrowed money; unleſs we go ſo far as to eſtimate the nouriſhment, and every expence of the manufacturer, and ſuppoſe that theſe are alſo ſupplied from borrowed money. To affirm this, would be turning arguments into cavil.

The object, therefore, of borrowed money for carrying on trade, is more relative to the merchant than to the manufacturer. Borrowing is neceſſary for collecting all this product and manufacture into the hands of merchants. This, no doubt, is very commonly the operation of credit; intereſt of money,

ney, here, comes in, to indemnify the giver of credit, for the uſe of his money: but this intereſt is due from the time only, when the borrower pays thoſe from whom he collects, to the time he receives payment from thoſe to whom he ſells. This interval it is of the higheſt importance to the merchant to ſhorten. In proportion as it is long, and in proportion to the rate of intereſt, he muſt raiſe his profits; and in proportion as payments are quick and regular, and intereſt low, he may diminiſh them. Whether merchants do regulate their profits, in all commercial nations, according to the exact proportion of the reſpective rates of intereſt, and promptitude of payments among them; or whether theſe are determined by the circumſtances of demand and competition in the ſeveral foreign markets where the trade is carried on, I leave to merchants to determine. All I ſhall remark is, that a well founded credit, and prompt payments, will do more ſervice to trade, than any advantage trading men can reap from the different rate of intereſt in different countries. CHAP. VIII.

It muſt not be concluded from this, that low intereſt is not a very great advantage to trade; all I contend for, is, that it is not the meaſure of it.

Another circumſtance which puts nations, in our days, much more on a level than they were in former times, I have already hinted at. It is *that general average* which the great loads of national debts, and the extenſion of credit, through the ſeveral nations of Europe, who pay annually large ſums of intereſt to their creditors, has eſtabliſhed. Let me ſuppoſe the Dutch, for example, to have fixed,

fixed, by placard, the rate of their intereſt at 3 *per cent.* I ſay, that as ſoon as the *general average* of intereſt comes to ſtand above this rate, from the price of public funds in England and France, we may ſafely conclude, that their trade can no longer be carried on with any very conſiderable ſum of money borrowed at 3 *per cent.* The conſequence then muſt be, to ſend the money which regorges in the hands of the frugal Dutch, into other countries, where it can produce a better return, excluſive of all expences of remitting and drawing. What the conſequences of this lending to foreigners may be to Holland, ſhall be afterwards examined.

To conclude; I reckon it will be found, that what has led ſome to believe that low intereſt is the meaſure of commerce, has been owing to this; that in ſome of the moſt commercial countries and cities intereſt has been found to be lower than in great kingdoms: but *this*, I imagine, is entirely owing to the frugality of their manners, which cuts off the borrowing of the rich for the ſake of diſſipation. When this is accompliſhed, trade alone will abſorb the ſtagnations of the frugal, and the price of intereſt will fall to that rate which is the beſt proportioned to the profits upon commerce; but this alſo will be leſs and leſs the caſe every day, in proportion to the credit and circulation of public funds in different nations.

CHAP. IX.

Does not Intereſt fall in Proportion as Wealth increaſes?

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I ANSWER in the affirmative: provided it be ſuppoſed that diſſipation do not increaſe in proportion to the wealth. Now in a general propoſition, ſuch as this which ſtands at the head of our chapter, this very neceſſary proviſo is apt to be overlooked, and thus people are led to error. The manners of a people, not their external circumſtances as to riches, are that which renders them frugal or extravagant. What, therefore, depends upon the ſpirit of a people, cannot be changed, but in conſequence of a change of that ſpirit.

If the rate of intereſt be high, from a taſte of diſſipation, let foreign trade throw in what loads of money it may, intereſt will ſtill ſtand high, until manners do change. Every claſs of a people has their peculiar ſpirit. The frugal merchant will accumulate wealth, and the prodigal lord will borrow it. In this ſituation, internal circulation will be rapid, and lands will ſhift hands. If this revolution ſhould prove a corrective to diſſipation, by veſting property in thoſe who have contracted a firm habit of frugality, then an augmentation of wealth may ſink the rate of intereſt. But if, on the contrary, the laws and manners of the country do diſtinguiſh claſſes by their manner of living, and mode of expence, it is ten to one but the induſtrious

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trious and frugal merchant will put on the prodigal gentleman, the moment he gets into a fine country ſeat, and hears himſelf called Your Honour. In certain countries, the memory of paſt induſtry carries a dreg along with it, which nothing but expenſive living has power to purge away.

Let this ſuffice at preſent upon the ſubject of intereſt: it is ſo connected with the doctrine of credit, that it will recur again at almoſt every ſtep as we go along

END OF THE FIRST PART.

AN

INQUIRY

INTO THE

PRINCIPLES OF POLITICAL ŒCONOMY.

BOOK IV.

OF CREDIT AND DEBTS.

PART II.

OF BANKS.

CHAP. I.

Of the various Kinds of Credit.

CHAP. I.

WE have already pointed out the nature of credit, which is confidence; and we have deduced the principles which influence the rate of intereſt, the eſſential requiſite for its ſupport.

We come now to treat of domeſtic circulation; where we are to deduce the principles of banking. This is the great engine calculated for carrying it on.

That I may, with order, inveſtigate the many combinations we ſhall here meet with, I muſt point out wherein banks differ from one another in point of policy, as well as in the principle upon which their credit is built.

If they be conſidered relatively to their policy, they may be divided into banks of circulation, and banks of depoſit.

If

If they be conſidered relatively to the principles upon which their credit is built, they may be divided into banks upon *private credit*, banks upon *mercantile credit*, and banks upon *public credit*.

It is to this laſt diviſion only I muſt attend, in the diſtribution of what is to follow; and therefore it is proper to ſet out by explaining what I underſtand by the terms I have here introduced.

Firſt, private credit. This is eſtabliſhed upon ſecurity, real or perſonal, of value ſufficient to make good the obligation of repayment both of capital and intereſt. This is the moſt ſolid of all.

Secondly, mercantile credit. This is eſtabliſhed upon the confidence the lender has, that the borrower, from his integrity and knowledge in trade, may be able to replace the capital advanced, and the intereſt due during the advance, in terms of the agreement. This is the moſt precarious of all.

Thirdly, public credit. This is eſtabliſhed upon the confidence repoſed in a ſtate, or body politic, who borrow money upon condition that the capital ſhall not be demandable; but that a certain proportional part of the ſum ſhall be annually paid, either in lieu of intereſt, or in extinction of part of the capital; for the ſecurity of which, a permanent annual fund is appropriated, with a liberty, however, to the ſtate to free itſelf at pleaſure, upon repaying the whole; when nothing to the contrary is ſtipulated.

The ſolidity of this ſpecies of credit depends upon circumſtances.

The difference between the three kinds of credit lies more in the object of the confidence, and the nature of the ſecurity, than in the condition of the borrower. Either a private man, a merchant, or a ſtate,

ſtate, may pledge, for the ſecurity of a loan, a real or a moveable ſecurity, with an obligation to refund the capital. In this caſe, the obligation ſtands upon the ſolid baſis of private credit.

Either a private man, a merchant, or a ſtate, may ſtrike out projects which carry a favourable appearance of ſucceſs, and thereupon borrow conſiderable ſums of money, repayable with intereſt. In this caſe, the obligation ſtands upon a mercantile credit.

Either a private man, a merchant, or a ſtate, may pledge (for the ſecurity of money borrowed) a perpetual annual income, the fund of which is not their property, without any obligation to refund the capital: ſuch obligations ſtand upon the principles of public credit.

I allow, there is a great reſemblance between the three ſpecies of credit here enumerated: there are however ſome characteriſtic differences between them.

Firſt, in the difficulty of eſtabliſhing and ſupporting them.

Private credit is inſeparable, in ſome degree, from human ſociety. We find it ſubſiſting in all ages: the ſecurity is palpable, and the principles on which it is built are ſimple and eaſy to be comprehended. Public credit is but a late invention: it is the infant of commerce, and of extenſive circulation. It has ſupplied the place of the treaſures of old, which were conſtant and ready reſources to ſtateſmen in caſes of public diſtreſs: the ſecurity is not palpable, nor readily underſtood, by the multitude; becauſe it reſts upon the ſtability of certain fundamental maxims of government. Mercantile credit is ſtill more

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more difficult to be eſtabliſhed; becauſe the ſecurity is the moſt precarious of any; it depends upon opinion and ſpeculation, more than upon a determinate fund provided for repayment of either capital or intereſt.

Secondly, they differ in the nature of the ſecurity and object of confidence.

Private credit has a determinate object of confidence, viz. the real exiſtence of a value in the hands of the debtor, ſufficient to acquit both capital and intereſt. Public credit has the viſible ſecurity of a fund appropriated for the perpetual payment of the intereſt. Mercantile credit depends wholly upon the integrity, capacity, and good-fortune of the debtor.

The third difference is with regard to the eaſe of transfer.

All public debts ſtand generally on the ſame bottom. No part of the ſame fund is better than another: the price of them is publicly known, and the ſecurities are laid in the moſt convenient way for transfer, that is, for circulation, without conſent of the debtor. This is far from being the caſe in private ſecurities. Nor is it the caſe in the mercantile, except in bills payable to order or to bearer; in which caſes alone, the creditor can effectually transfer without the conſent of the debtor.

The fourth difference is diſcovered in the ſtability of the confidence.

Nothing can ſhake private credit, but an appearance of inſolvency in the very debtor. But the bankruptcy of one conſiderable merchant, may give a ſhock to mercantile credit all over Europe: and nothing will hurt public credit, as long as the ſtipulated

pulated intereſt continues regularly to be paid, and as long as the funds appropriated for this payment remain entire.

From what has been ſaid, I hope the three ſpecies of credit have been ſufficiently explained; and, from what is to follow, we ſhall feel the utility of this diſtribution.

CHAP. II.

Of private Credit.

PRIVATE credit is either real, perſonal, or mixed.

Real ſecurity, every body underſtands. It is the object of law, not of politics, to give an enumeration of its different branches. By this term, we underſtand no more than the pledging an immoveable ſubject for the payment of a debt. As by a perſonal ſecurity we underſtand the engagement of the debtor's whole effects for the relief of his creditor. The mixed, I have found it neceſſary to ſuperadd, in order to explain with more facility, the ſecurity of one ſpecies of banks. The notes iſſued by banks upon private credit, ſtand upon a mixed ſecurity: that is, both real and perſonal. Perſonal, as far as they affect the banker, and the banking ſtock pledged for the ſecurity of the paper: and real, as far as they affect the real ſecurities granted to the banker for the notes he lends, which afterwards enter into circulation.

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The ruling principle in private credit, and the baſis on which it reſts, is the facility of converting, into money, the effects of the debtor; becauſe the capital and intereſt are conſtantly ſuppoſed to be demandable. The proper way, therefore, to ſupport this ſort of credit to the utmoſt, is to contrive a ready method of appretiating every ſubject affectable by debts; and ſecondly, of melting it down into ſymbolical or paper money.

In former times, when circulation was inconſiderable, the ſcheme of melting down the property of debtors, for the payment of creditors, was impracticable; and accordingly we ſee that capitals ſecured on land property were not demandable. This formed another ſpecies of credit, different from any we have mentioned; which differed from public credit in this only, that the ſolid property producing the income, was really in the hands of the debtor; whereas the fund which produces the public revenue is not in the hands of the ſtate. This ſubdiviſion we have omitted, as its baſis, in both caſes, reſts ſolely upon the regular payment of the intereſt. Of this nature are the contracts of conſtitution in France, and the old infeftments of annual rent in Scotland. There are few nations, I believe, in Europe, where ſome traces, at leaſt, of this kind of ſecurity do not remain.

In order, then, to carry private credit to its greateſt extent, all entails upon lands ſhould be diſſolved; all obligations ſhould be regularly recorded in public regiſters; the value of all lands ſhould be aſcertained, the moment any ſecurity is granted

granted upon them; and the ſtateſman ſhould interpoſe between parties, to accelerate the liquidation of all debts, in the ſhorteſt time, and at the leaſt expence poſſible.

Although this method of proceeding be the moſt effectual to ſecure, and to extend private credit, yet it is not, at all times, expedient to have recourſe to it: this has been abundantly explained in the 27th chapter of the ſecond book; and therefore I ſhall not here interrupt my ſubject with a needleſs repetition.

CHAP. III.

Of Banks.

IN deducing the principles of banks, I ſhall do the beſt I can to go through the ſubject ſyſtematically.

I have divided credit into three branches, private, mercantile, and public. This diſtribution will be of uſe on many occaſions, and ſhall be followed as far as it will go, conſiſtently with perſpicuity: but, as has been often obſerved, ſubjects of a complex nature cannot be brought under the influence of a few general principles, without running into the modern vice of forming ſyſtems, by wire-drawing many relations in order to make them anſwer.

The great operations of domeſtic circulation may be better diſcovered by an examination into the principles upon which we find banking eſtabliſhed,

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than by any other method I can contrive. It has been by inquiring into the nature of thoſe banks which are the moſt remarkable in Europe, that I have gathered the little knowledge I have of the theory of domeſtic circulation. This induces me to think that the beſt way to communicate my thoughts on this ſubject, is to lay down the reſult of my inquiries relatively to the very object of them.

After comparing the operations of different banks in promoting circulation, I find I can divide them, as to their policy, into two general claſſes, viz. thoſe which iſſue notes payable in coin to bearer; and thoſe which only transfer the credit written down in their books from one perſon to another.

Thoſe which iſſue notes, I call banks of circulation; thoſe which transfer their credit, I call banks of depoſit.

Both indeed may be called banks of circulation, becauſe by their means circulation is facilitated; but, as different terms ſerve to diſtinguiſh ideas different in themſelves, theſe I here employ will anſwer the purpoſe as well as any others, when once they are defined; and circulation undoubtedly reaps far greater advantages from banks which iſſue notes transferable every where, than from banks which only transfer their credit on the very ſpot where the books are kept.

I ſhall, according to this diſtribution, firſt explain the principles upon which the banks of circulation are conſtituted and conducted, before I treat of the others.

This

This will lead me to avail myſelf of the diviſion I have made of credit, into private, mercantile, and public: becauſe, according to the purpoſes for which a bank is eſtabliſhed, the ground of confidence, that is, the credit of the bank, comes to reſt upon one or other of them.

In countries where trade and induſtry are in their infancy, credit can be but little known; conſequently, they who have ſolid property, muſt find great difficulty in turning it into money; without money, again, induſtry cannot be carried on, as we have abundantly explained in the 26th chapter of the ſecond book; conſequently without credit the whole plan of national improvement will be diſappointed.

Under ſuch circumſtances, it is proper to eſtabliſh a bank upon the principles of private credit. This bank muſt iſſue notes upon land and other ſecurities, and the profits of it muſt ariſe from the permanent intereſt drawn for the money lent.

Of this nature are the banks of Scotland. To them the improvement of this country is entirely owing; and until they are generally eſtabliſhed in other countries of Europe, where trade and induſtry are little known, it will be very difficult to ſet theſe great engines to work.

Although I have repreſented this ſpecies of banks, which I ſhall call *banks of circulation upon mortgage*, as peculiarly well adapted to countries where induſtry and trade are in their infancy, their uſefulneſs to all nations, who have upon an average a favourable balance upon their trade, will ſufficiently appear

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upon an examination of the principles upon which they are eſtabliſhed.

It is for this reaſon that I have applied myſelf to reduce to principles the many operations of the Scotch banks, during the time they were in the greateſt diſtreſs imaginable, from the heavy balance the country owed during the laſt years of the late war, and for ſome time after the peace in 1763. By this I flatter myſelf to do a particular ſervice to Scotland, as well as to ſuggeſt hints which may prove uſeful, not to England only, but to all commercial countries, who, by imitating this eſtabliſhment, will reap advantages of which they are at preſent deprived.

For theſe reaſons, I hope the detail I ſhall enter into with regard to Scotland, will not appear tedious, both from the variety of curious combinations it will contain, as alſo from the lights it will caſt upon the whole doctrine of circulation, which is the preſent object of our attention.

In countries where trade is eſtabliſhed, induſtry flouriſhing, credit extenſive, circulation copious and rapid, as is the caſe with England, banks upon mortgage, however uſeful they may prove for other purpoſes, would not anſwer the demands of the trade of London, and the ſervice of government, ſo well as the bank of England.

The ruling principle of this bank, and the ground of their confidence, is mercantile credit. The bank of England does not lend upon mortgage, nor perſonal ſecurity: their profits ariſe from diſcounting bills; loans to government, upon the faith of taxes,

to

to be paid within the year; and upon the credit caſh of thoſe who deal with them.

A bank ſuch as that of England, cannot therefore be eſtabliſhed, except in a great wealthy mercantile city, where the accumulation of the ſmalleſt profits amount, at the end of the year, to very conſiderable ſums.

In France, under the regency of the Duke of Orleans, there was a bank erected upon the principles of public credit. The ground of confidence there, and the only ſecurity for all the paper they iſſued, were the funds appropriated for the payment of the intereſt of the public debts.

It is for the ſake of order and method, that I propoſe to explain the principles of banking, according to this diſtribution. I muſt however confeſs, that although I repreſent each of the three kinds of banks as having a cauſe of confidence peculiar to itſelf, to wit, either private, mercantile, or public credit; yet we ſhall find a mixture of all the three ſpecies of credit entering into the combination of every one of them.

Banking, in the age we live, is that branch of credit which beſt deſerves the attention of a ſtateſman. Upon the right eſtabliſhment of banks, depends the proſperity of trade, and the equable courſe of circulation. By them * *ſolid property* may be melted

* Solid property, here, is not taken in the ſtricteſt acceptation. In countries of commerce, where banks are generally eſtabliſhed, every denomination of good perſonal ſecurity may be conſidered as ſolid property. Thoſe who have perſonal eſtates, may obtain credit from banks as well as landed men;

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melted down. By the means of banks, money may be conſtantly kept at a due proportion to alienation. If alienation increaſe, more property may be melted down. If it diminiſh, the quantity of money ſtagnating, will be abſorbed by the bank, and part of the property formerly melted down in the ſecurities granted to them, will be, as it were, conſolidated anew. Banks muſt pay, as agents for the country, the balance of their trade with foreign nations.—Banks keep the mints at work; and it is by their means, principally, that private, mercantile, and public credit are ſupported. I can point out the utility of banks in no way ſo ſtriking, as to recal to mind the ſurprizing effects of Mr. Law's bank, eſtabliſhed in France, at a time when there was neither money or credit in the kingdom. The ſuperior genius of this man produced, in two years time, the moſt ſurprizing effects imaginable; he revived induſtry; he eſtabliſhed confidence; and ſhewed to the world, that while the landed property of a nation is in the hands of the inhabitants, and while the lower claſſes are willing to be induſtrious, money never *can* be wanting. I muſt now proceed in order, towards the inveſtigation of the principles which influence this intricate and complicated branch of my ſubject.

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becauſe theſe perſonal eſtates are ſecured either on lands, or in the funds, or in effects which contain as real a value as lands, and theſe being affected by the ſecurities which the proprietors grant to the bank, may with as much propriety be ſaid to be melted down, as if they conſiſted in lands. In ſubjects of this nature, it is neceſſary to extend the meaning of our terms, in proportion to the circumſtances concerning which we reaſon.

CHAP. IV.

Of Banks of Circulation upon Mortgage or private Credit.

CHAP. IV.

BANKS of circulation upon mortgage or private credit, are thoſe which iſſue notes upon private ſecurity, payable to bearer on demand, in the current coin of the nation. They are conſtituted in the following manner.

A number of men of property join together in a contract of banking, either ratified or not by public authority, according to circumſtances. For this purpoſe, they form a ſtock which may conſiſt indifferently of any ſpecies of property. This fund is engaged to all the creditors of the company, as a ſecurity for the notes they propoſe to iſſue. So ſoon as confidence is eſtabliſhed with the public, they grant credits, or caſh accompts, upon good ſecurity; concerning which they make the proper regulations. In proportion to the notes iſſued in conſequence of theſe credits, they provide a ſum of coin, ſuch as they judge to be ſufficient to anſwer ſuch notes as ſhall return upon them for payment. Nothing but experience can enable them to determine the proportion between the coin to be kept in their coffers, and the paper in circulation. This proportion varies even according to circumſtances, as we ſhall afterwards obſerve.

The

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The profits of the bank proceed from the intereſt paid upon all the money advanced by the bank, in conſequence of credits given*.

Out of theſe profits muſt be deducted, firſt, the charge of management; ſecondly, the loſs of intereſt for all the coin they preſerve in their coffers, as well as the expence they are put to in providing it; and thirdly, the expence of tranſacting and paying all balances due to other nations.

In proportion, therefore, as the intereſt upon the money advanced by the bank in conſequence of the ſecurities, exceeds the loſs of intereſt on the coin in the bank, the expence of management, and of providing funds abroad to pay balances, in the ſame proportion is their profit; which they may either divide, accumulate, or employ, as they think fit.

* Let it be remarked in this place, that although all perſons obtaining credit from a bank for a determinate ſum, be obliged to grant a proper ſecurity for the whole ſum; yet by the nature of the obligation, no intereſt becomes due to the bank in conſequence of it, except in proportion to the ſums advanced, and to the time of ſuch advance by the bank. Example: A. obtains a credit from a bank for one thouſand pounds. After one month he makes a call for one hundred pounds; the intereſt of this hundred pounds commences from the day only on which the bank pays it; and were A. to replace this ſum to the bank one week after, he will be liable for one week's intereſt only, of one hundred pounds notwithſtanding that his obligation lies in the hand of the bank for one thouſand pounds. When, therefore, in the courſe of this ſubject, we ſhall make mention of the intereſt due to the bank upon the ſecurities in their hand, for the credits they have given; this is always underſtood to be reſtricted to the ſums actually advanced by the bank upon ſuch credits.

Let

Let it be obſerved, that I do not conſider the original bank ſtock, or the intereſt ariſing from *that*, as any part of the profits of the bank. So far as it regards the bank, it is their original property; and ſo far as it regards the public, it ſerves for a collateral ſecurity to it, for the notes iſſued. It becomes a pledge, as it were, for the faithful diſcharge of the truſt repoſed in the bank: without ſuch a pledge, the public could have no ſecurity to indemnify it, in caſe the bank ſhould iſſue notes for no permanent value received. This would be the caſe, if they thought fit to iſſue their paper either in payment of their own private debts, or for articles of preſent conſumption, or in a precarious trade.

When paper is iſſued by a bank for no value received, the ſecurity of ſuch paper ſtands upon the original capital of the bank alone; whereas when it is iſſued for value received, that value is the ſecurity on which it immediately ſtands, and the bank ſtock is, properly ſpeaking, only ſubſidiary.

I have dwelt the longer upon this circumſtance, becauſe many, who are unacquainted with the nature of banks, have a difficulty to comprehend how they ſhould ever be at a loſs for money, as they have a mint of their own, which requires nothing but paper and ink to create millions. But if they conſider the principles of banking, they will find that every note iſſued for value conſumed, inſtead of value received and preſerved, is neither more or leſs, than a partial ſpending either of their capital, or profits on the bank. Is not this the effect of the expence of their management? Is not this expence paid

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paid in their notes? But did ever any body imagine that this expence did not diminish the profits of banking? Consequently, such expence may exhaust these profits, if carried far enough; and if carried still farther, will diminish the capital of the banking stock.

As a farther illustration of this principle, let me suppose, an honest man, intelligent, and capable to undertake a bank. I say that such a person, without one shilling of stock, may carry on a bank of domestic circulation, to as good purpose as if he had a million; and his paper will be every bit as good as that of the bank of England. Every note he issues will be secured on good private security; this security carries interest to him, in proportion to the money which has been advanced by him, and stands good for the notes he has issued. Suppose then that after having issued for a million sterling, all the notes should return upon him in one day. Is it not plain, that they will find, with the honest banker, the original securities, taken by him at the time he issued them; and is it not true, that he will have, belonging to himself, the interest received upon these securities, while his notes were in circulation, except so far as this interest has been spent in carrying on the business of his bank? Large bank stocks, therefore, serve only to establish their credit; to secure the confidence of the public, who cannot see into their administration; but who willingly believe, that men who have considerable property pledged in security of their good faith, will not probably deceive them.

This

This ſtock is the more neceſſary, from the obligation to pay in the metals. Coin may be wanting, upon ſome occaſions, to men of the greateſt landed property. Is this a reaſon to ſuſpect their credit? Juſt ſo of banks. The bank of England may be poſſeſſed of twenty millions ſterling of good effects, to wit, their capital; and the ſecurities for all the notes they have iſſued; and yet that bank might be obliged to ſtop payment, upon a ſudden demand of a few millions of coin.

Runs upon a bank well eſtabliſhed, betray great want of confidence in the public; and this want of confidence proceeds from the ignorance the greateſt part of men are in, with regard to the ſtate of their affairs, and to the principles upon which their trade is carried on.

From what has been ſaid, we may conclude, that the ſolidity of a bank which lends upon private ſecurity, does not ſo much depend upon the extent of their original capital, as upon the good regulations they obſerve in granting credit. In this the public is nearly intereſted; becauſe the bank ſecurities are really taken for the public, who are creditors upon them in virtue of the notes which circulate through their hands.

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CHAP. V.

Such Banks ought to iſſue their Notes on private, not mercantile Credit.

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LET me, therefore, reaſon upon the example of two bankers; one iſſues his notes upon the beſt real or perſonal ſecurity; another gives credit to merchants and manufacturers, upon the principles of mercantile credit, which we have explained above; the notes of the one and of the other enter into circulation, and the queſtion comes to be, which are the beſt? If we judge by the regularity of the payment of notes on preſentation, perhaps the notes of the one are as readily paid as thoſe of the other. If we judge by the ſtock of the two bankers, perhaps they may be equal, both in value and ſolidity; but it is not upon either of theſe circumſtances that the queſtion depends. The notes in circulation may far exceed the amount of the largeſt bank ſtock; and therefore, it is not on the original ſtock; but on the ſecurities taken at iſſuing the notes, that the ſolidity of the two currencies is to be eſtimated. Thoſe ſecured on private credit, are as ſolid as lands and perſonal eſtates; they ſtand upon the principles of private credit. Thoſe ſecured on the obligations of merchants and manufacturers, depending upon the ſucceſs of their trade, are good or bad in proportion to ſuch ſucceſs. Every bankruptcy of one of their debtors, involves the bank, and carries off either a part of their profits, or of their ſtock. Which way, therefore, can the public

lic judge of the affairs of bankers, except by attending to the nature of the ſecurities upon which they give credit *. CHAP. V.

CHAP. VI.

Uſe of ſubaltern Bankers and Exchangers.

HERE it may be urged, that the great uſe of banks is to multiply circulation, and to furniſh the induſtrious with the means of carrying on their traffic: that if banks inſiſt upon the moſt ſolid ſureties before they give credit, the great utility of them muſt ceaſe; becauſe merchants and manufacturers are never in a ſituation to obtain credit upon ſuch terms.

This argument proves only, that banks are not, alone, ſufficient for carrying on every branch of circulation. A truth which nobody will controvert. But as they are of uſe in carrying on the great branches of circulation, it is proper to prevent them from engaging in ſchemes which may deſtroy their credit altogether.

I have obſerved above, that this method of iſſuing notes upon private ſecurity, was peculiarly well

* It muſt be obſerved, that in this example, the banker who iſſues his notes upon mercantile ſecurity, is not ſuppoſed to grant a permanent loan to the merchant or manufacturer, as he would do to thoſe who pledge a perſonal ſecurity. This would be totally repugnant to the principle of banks ſecured on mercantile credit. Such banks never grant loans for indefinite duration, upon any ſecurity whatſoever. They will not even diſcount a bill of exchange, when it has above two months to run.

adapted

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adapted to countries like Scotland, where trade and induſtry are in their infancy.

Merchants and manufacturers there, have conſtant occaſion for money or credit; and at the ſame time, they cannot be ſuppoſed to have either real or perſonal eſtates to pledge, in order to obtain a loan directly from the banks, who ought to lend upon no other ſecurity.

To remove this difficulty, we find a ſet of merchants, men of ſubſtance, who obtain from the banks very extenſive credits upon the joint real and perſonal ſecurity of themſelves and friends. With this aſſiſtance from the bank, and with money borrowed from private people, repayable on demand, ſomething below the common rate of intereſt, they ſupport the trade of Scotland, by giving credit to the merchants and manufacturers.

To this ſet of men, therefore, are banks of circulation upon mortgage to leave this particular branch of buſineſs. It is their duty, it is the intereſt of the country, and no leſs that of banks, that they be ſupported in ſo uſeful a trade; a trade which animates all the commerce and manufactures of Scotland, and which conſequently promotes the circulation of thoſe very notes upon which the profits of the banks do ariſe.

Theſe merchants are ſettled in all the moſt conſiderable towns: they are well acquainted with the ſtock, capacity, induſtry, and integrity of all the dealers in their diſtrict: they are many; and by this are able to go through all the detail which their buſineſs requires; and their profits, as we

ſhall

ſhall ſee preſently, are greater than thoſe of banks, who lend at a ſtated intereſt.

The common denomination by which they are called in Scotland, is that of bankers; but, to avoid their being confounded with the bankers in Enggland (whoſe buſineſs is very different) we ſhall, while we are treating of the doctrine of banks, call them by the name of exchangers, ſince their trade is principally carried on by bills of exchange.

As often as theſe exchangers give credit to dealers in any way, they conſtantly ſtate a commiſſion of $\frac{1}{2}$ *per cent.* or more, according to circumſtances, over and above the intereſt of their advance; theſe are profits, which greatly ſurpaſs thoſe of any bank. One thouſand pounds credit given by a bank, may not produce ten pounds in a year for intereſt: whereas were a like credit given by a banker, to a merchant, who draws it out, and replaces it forty times in a year, there will ariſe upon it a commiſſion of 20 *per cent.* or 200 *l.*

This ſet of men are expoſed to riſks and loſſes, which they bear without complaint, becauſe of their great profits; but it implies a detail, which no bank can deſcend to.

Theſe exchangers break from time to time; and no eſſential hurt is thereby occaſioned to national credit. The loſs falls upon thoſe who lend to them, or truſt them with their money, upon precarious ſecurity; and upon merchants, who make allowances for ſuch riſks. In a word, they are a kind of inſurers, and draw premiums in proportion to their riſks.

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To this ſet of men, therefore, it ſhould be left to give credit to merchants, as the credit they give is purely mercantile; and to banks alone, who give credit on good private ſecurity, it ſhould be left to conduct the great national circulation, which ought to ſtand upon the ſolid principles of private credit.

From this example we may diſcover the juſtneſs of the diſtinction I have made between *private* and *mercantile* credit: had I not found it neceſſary, I ſhould not have introduced it.

CHAP. VII.

Concerning the Obligation to pay in Coin, and the Conſequences thereof.

IN all banks of circulation upon mortgage, the obligation in the note is to pay in coin, upon demand: and in the famous bank of Mr. Law, there was a very neceſſary clauſe added to the note; to wit, that the coin was to be of the ſame weight, fineneſs and denomination, as at the date of the note. This was done, in order to prevent the inconveniences which might reſult to either party, by the king's arbitrarily raiſing or ſinking the denominations of the coin; a practice then very familiar in France.

This obligation to pay in coin, owes its origin to the low ſtate of credit in Europe at the time when banks firſt began to be introduced; and it is not likely that any other expedient will ſoon be fallen upon to remove the inconveniences which reſult from

it in domeſtic circulation, as long as ſome perſons of the moſt acute underſtanding in many things, conſider all money, except coin, to be falſe and fictitious.

I have already thrown out abundance of hints, from which it may be gathered, that, in my opinion coin, is not abſolutely neceſſary for carrying on domeſtic circulation, and more will be ſaid on this ſubject, as we go along. But I am here to examine the nature and conſequences of this obligation, contracted by banks, to diſcharge their notes in the current coin of the country.

In the firſt place, it is plain, that no coin is ever (except in very particular caſes) carried to a bank, in order to procure notes. The greateſt part of notes iſſue from the banks, concerning which we are treating, either in conſequence of a loan, or of a credit given by the bank, to ſuch as can give ſecurity for it. This loan is made in their own notes; which are quickly thrown into circulation by the borrower; who borrowed them, becauſe he had occaſion to pay them away. In like manner, when a credit is given, the bank pays (in her notes) all the orders ſhe receives from the perſon who has the credit: in this manner are notes commonly iſſued from a bank.

Coin, again, comes to a bank, in the common courſe of circulation, by payments made to it, either for the intereſt upon their loans, or when merchants and landed men throw the payments made to them into the bank, towards filling up their credits; or by way of a ſafe depoſit for their money. Theſe payments are made to the bank in the ordinary circulation of the country. When there is a conſider-

able proportion of coin in circulation, then the bank receives much coin; and when there is little, they receive little. Whatever they receive is laid by to anſwer notes which are offered for payment; but whenever a draught is made upon them for the money thrown in as above, they pay in paper.

As we are here ſearching after principles, not after facts, it is out of our way to inquire what may be the real proportion of coin preſerved by banks of circulation, for anſwering the demand for it.

Mr. Megens, a very knowing man, and a very judicious author, lately dead, who has written a ſmall treatiſe in the German tongue, tranſlated into Engliſh, under the title of *The Univerſal Merchant*, delivers his ſentiments concerning the proportion of coin preſerved in the bank of England, which I ſhall here tranſcribe in the tranſlator's words. Sect. 60.

"The bank of England conſiſts of two ſorts of creditors, the one of that ſet of men, who, in King William's time, when money was ſcarce and dear, lent the public 1,200,000 pounds, at 8 *per cent.* intereſt, and 4000 pounds were allowed them for charges, amounting in whole to 100,000 pounds a year, an excluſive right of banking as a corporation for 13 years, under the denomination of the proprietors of the bank; and which, for obtaining prolongation of their privileges, has been ſince increaſed by farther loans to the public at a leſs intereſt, to near the ſum of 11,000,000 pounds, which if we compute the intereſt at 3 *per cent.* (as what they have more on ſome part anſwers incident charges) it produces 330,000 pounds a year; and as they divide annually 5 *per cent.* to their proprietors,

prietors, which is 550,000 pounds, it is evident that they make a yearly profit of 220,000 pounds, *out of the money of the people who keep caſh with them*, and theſe are the other ſort of creditors: and as for what money the bank lends to the government, they have for the moſt part but 3 *per cent.* intereſt, I conclude that *the credit caſh they have in their hands* may amount to 11,000,000 pounds, and thereout is employed in loans to the government, in the diſcounting of bills, and in buying gold and ſilver 7,333,333$\frac{1}{3}$ pounds, which, at 3 *per cent.* intereſt or profit, will amount to the above 220,000 pounds, and remains 3,666,666$\frac{2}{3}$ pounds in caſh, ſufficient for circulation and current payments. And experience has evinced, that whenever any miſtruſt has occaſioned any run upon the bank for any continuance, and the people not finding the treaſure ſo ſoon exhauſted as they ſurmiſed, it flowed in again faſter on the one hand than it was drawn out on the other."

This gentleman lived long in England. He was very intelligent in matters relating to commerce; and his authority may, I believe, be relied on as much as any other perſon's, except that of the bank itſelf; which, it would appear, has ſome intereſt in keeping ſuch affairs a ſecret.

We ſee by his account, that the bank of England keeps in coin one third part of the value of all their notes in circulation. With this quantity, buſineſs is carried on with great ſmoothneſs, owing to the proſperity of that kingdom, which ſeldom owes any conſiderable balance to other nations.

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But the conſequence of the obligation to pay in coin, is, that when the nation comes to owe a foreign balance, the notes which the bank had iſſued to ſupport domeſtic circulation *only*, come upon it for the payment of this balance; and thereby the coin which it had provided for home demand only, is drawn out.

It is this circumſtance, above all others, which diſtreſſes banks of circulation. Were it not for this, the obligation to pay in coin might eaſily be diſcharged; but when in virtue of this pure obligation, a heavy national balance is demanded from the bank, which has only made proviſion for the current and ordinary demand at home, it requires a little combination to find out, at once, an eaſy remedy.

This combination we ſhall, in the following chapters, endeavour to unfold: it is by far the moſt intricate, and at the ſame time the moſt important in the whole doctrine of banks of circulation.

Another inconvenience reſulting from this obligation to pay in coin, we have explained in the third book. It is, that the confuſion of the Engliſh coin, and the lightneſs of a great part of it, obliges the bank of England to purchaſe the metals at a price far above that which they can draw back for them after they are coined. We have there ſhewn the great profit that might be made in melting down and exporting the heavy ſpecies. This profit turns out a real loſs to the bank of England, which is conſtantly obliged to provide new coin, in proportion as it is wanted. This inconvenience is not directly

rectly felt by banks, in countries where there is no mint eſtabliſhed.

Here then is another bad conſequence of this obligation to pay in the metals, which a proper regulation of the coin would immediately remove. In countries which abound in coin, banking is an eaſy trade, when once their credit is well eſtabliſhed. It is principally when either a foreign war, or a wrong balance of trade has carried off the metals, that the weight of this obligation to pay in coin is ſeverely felt.

CHAP. VIII.

How a wrong Balance of Trade affects Banks of Circulation.

IT is commonly ſaid, that when there is a balance due by any nation, upon the whole of their mercantile tranſactions with the reſt of the world, ſuch balance muſt be paid in coin. This we call a wrong balance. Thoſe who tranſact the payment of this balance, are thoſe who regulate the courſe of exchange; and we may ſuppoſe, without the leaſt danger of being deceived, that the courſe is always higher than the expence of procuring and tranſporting the metals; becauſe the overcharge is profit to the exchanger, who without this profit could not carry on his buſineſs.

Theſe exchangers, then, muſt have a command of coin; and where can they get it ſo eaſily, and ſo readily, as from banks who are bound to pay in it?

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Every merchant who imports foreign commodities, muſt be ſuppoſed to have value in his hands from the ſale of them; but this value muſt conſiſt in the money of the country: if this be moſtly in bank paper, he muſt give the bank paper for a bill to the exchanger, whoſe buſineſs it is to place funds in thoſe parts upon which bills are demanded. The exchanger again (to ſupport the fund which he exhauſts by his draughts) muſt demand coin from the banks, for the notes he received from the merchant when he gave him the foreign bill.

Beſides the wrong balances of trade tranſacted in this manner, which banks are conſtantly obliged to make good in coin, every other payment made to foreigners has the ſame effect. It is not becauſe it is *a balance of trade*, but becauſe it is a payment which cannot be made in paper currency, that a demand is made for coin. Coin we have called the money of the world, as notes may be called the money of the ſociety. The firſt then muſt be procured when we pay a balance to foreigners; the laſt is full as good when we pay among ourſelves.

It is proper, however, to obſerve, that there is a great difference between the wrong *balance of trade*, and the general *balance of payments*. The firſt marks the total loſs of the nations when her imports exceed the value of her exports; the ſecond comprehends three other articles, viz. 1. the expence of the natives in foreign countries; 2. the payment of all debts, principal and intereſt, due to foreigners; 3. The lending of money to other nations.

Theſe three put together, make what I call the general balance of foreign payments; and theſe

added to the wrong balance of trade may be called the *grand balance* with the world.

Now as long as the payment of this *grand balance* is negotiated by exchangers, all the coin required to make it good, muſt be ſupplied by banks, while they have one note in circulation.

How then is this coin to be procured by nations who have no mines of their own?

CHAP. IX.

How a grand Balance may be paid by Banks, without the aſſiſtance of Coin.

DID all the circulation of a country conſiſt in coin, this *grand balance*, as we have called it, would be paid out of the coin, to the diminution of it.

We have ſaid that the acquiſition of coin, or of the precious metals, adds to the intrinſic value of a country, as much as if a portion of territory were added to it. The truth of this propoſition will now ſoon appear evident.

We have alſo ſaid, that the creation of ſymbolilical money, adds no additional wealth to a country, but only provides a fund of circulation out of ſolid property; which enables the proprietors to conſume and to pay proportionally for their conſumption: and we have ſhewn how by this contrivance trade and induſtry are made to flouriſh.

May we not conclude, from theſe principles, that as nations who have coin, pay their *grand balance*

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lance out of their coin, to the diminution of this ſpecies of their property, ſo nations who have melted down their ſolid property into ſymbolical money, muſt pay their *grand balance* out of the ſymbolical money; that is to ſay, out of the ſolid property of which it is the ſymbol?

But this ſolid property cannot be ſent abroad; and it is alleged that nothing but coin can be employed in paying this *grand balance.* To this I anſwer, that in ſuch a caſe the credit of a bank may ſtep in, without which a nation which runs ſhort of coin, and which comes to owe a *grand balance* muſt quickly be undone.

We have ſaid that while exchangers tranſact the balance, the whole load of providing coin lies upon banks. Now the whole ſolid property melted down, in their paper, is in their hands; becauſe I conſider the ſecurities given them for their paper, to be the ſame as the property itſelf. Upon this property, there is a yearly intereſt paid to the bank: this intereſt, then, muſt be engaged to foreigners by the bank, in lieu of what is owing to them by the nation; and when once a fund is borrowed upon it abroad, the reſt is eaſy to the bank. This ſhall be farther explained as we go along.

I do not pretend that the common operation of providing coin, when the *grand balance* is againſt a nation, is as ſimple as I have repreſented it. I know it is not: and I know alſo, that I am not in any degree capable to explain the infinite combination of mercantile operations neceſſary to bring it about; but it is no leſs true, that theſe combinations may be ſhortened: becauſe when the whole of

of them have been gone through, the tranſaction muſt end in what I have ſaid; to wit, that either the *grand balance* muſt be paid out of the national ſtock of coin, or it muſt be furniſhed by foreigners upon a loan from them; the intereſt of which muſt be paid out of that part of the ſolid property of the nation which has been melted down into paper. I ſay farther, that were not all this ſolid property (ſo melted down) in the hands of banks, who thereby have eſtabliſhed to themſelves an enormous *mercantile* credit; there would be no poſſibility of conducting ſuch an operation: that is to ſay, there would be no poſſibility for nations to run in debt to nations, upon the ſecurity of their reſpective landed property.

CHAP. X.

Inſufficiency of temporary Credits for the Payment of a wrong Balance.

I HAVE ſaid, that when the national ſtock of coin is not ſufficient to provide banks with the quantity demanded of them, for the payment of the *grand balance*, that a loan muſt take place. To this it may be objected, that a credit is ſufficient to procure coin, without having recourſe to a formal loan. The difference I make between a loan and a credit conſiſts in this, that by a credit we underſtand a temporary advance of money, which the perſon who gives the credit expects to have repaid in a ſhort time, with intereſt for the advance, and commiſſion for the credit; whereas by a loan we underſtand

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underſtand the lending of money for an indefinite time, with intereſt during non-payment.

Now I ſay, the credit, in this caſe, will not anſwer the purpoſe of ſupplying a deficiency of coin; unleſs the deficiency has been accidental, and that a return of coin, from a new favourable *grand balance*, be quickly expected. The credit will indeed anſwer the preſent exigency; but the moment this credit comes to be replaced, it muſt be replaced either by a loan, or by a ſupply of coin; or by a renewal of the former credit; but, by the ſuppoſition, coin is found to be wanting for paying the *grand balance*; conſequently, nothing but a loan, made by the lenders either in coin, in the metals, or in a liberty to draw upon them, can remove the inconvenience; and if recourſe be had to a new credit, inſtead of the loan, the ſame difficulty will recur, whenever this credit again comes to be made good by repayment.

Upon the whole, we may conclude, that nations who owe a balance to other nations, muſt pay it either with their coin, or with their ſolid property; conſequently, the acquiſition of coin is, in this particular, as advantageous as the acquiſition of lands; but when coin is not to be procured, the tranſmiſſion of the ſolid property to foreign creditors is an operation which banks muſt undertake; becauſe it is they who are obliged either to do this, or to pay in coin.

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CHAP. XI.

Of the Hurt reſulting to Banks, when they leave the Payment of a wrong Balance to Exchangers.

CHAP. XI.

WE have ſeen in a former chapter, how exchangers and banks are mutually aſſiſtant to one another: the exchangers by ſwelling and ſupporting circulation; the bank by ſupplying them with credit for this purpoſe. While parties are united by a common intereſt, all goes well: but intereſt divides, by the ſame principle that it unites.

No ſooner does a nation incur a balance againſt itſelf, than exchangers ſet themſelves to work to make a fortune, by conducting the operation of paying it. They appear then in the light of political uſurers to a ſpendthrift heir, who has no guardian. This guardian ſhould be the bank, who upon ſuch occaſions (and upon ſuch only) ought to interpoſe between the nation and her foreign creditors. This it may do, by conſtituting itſelf at once debtor for the whole balance, and by taking foreign exchange into its hand, until ſuch time as it ſhall have diſtributed the debt it has contracted for the nation, among thoſe individuals who really owe it. This operation performed, exchange may be left to thoſe who make this branch their buſineſs, becauſe then they will find no opportunity of combining either againſt the intereſt of the bank or of individuals.

When

When a national bank neglects ſo neceſſary a duty, as well as ſo neceſſary a precaution, the whole claſs of exchangers become united by a common intereſt againſt it; and the country is torn to pieces, by the fruitleſs attempt it makes to ſupport itſelf, without the help of the only expedient that can relieve it.

Thoſe exchangers having the *grand balance* to tranſact with other nations, make uſe of their credits with the bank, and of its notes, in order to draw coin from the bank, which they export. This throws a great load upon the bank, which is conſtantly obliged to provide a ſufficient quantity of coin for anſwering all demands; for we have laid it down as a principle, that whatever coin or bills are neceſſary to pay this *grand balance*, in every way it can be tranſacted, it muſt ultimately be paid by the bank; becauſe whoever wants coin for any purpoſe, and has bank notes, can force the bank to pay them in coin, or ſtop payment.

It cannot, therefore, be ſaid, that exchangers do wrong; nor can they be blamed for drawing from the bank whatever is wanted for the purpoſe of paying to foreigners what is their due; that is, what is juſtly owing to them. If they do more, they muſt hurt themſelves; becauſe whatever is ſent abroad more than what is due, muſt conſtitute the reſt of the world debtors to the country which ſends out their coin. The conſequence of this would be to turn exchange againſt foreigners, and to make it favourable for the nation which is creditor. In this caſe, were the creditors ſtill to continue ſending coin abroad, they would *loſe* by this operation,

operation, for the ſame reaſon that they *gain*, by that of ſending it out when they are debtors. CHAP. XI.

It is very common for banks to complain, when coin is hard to be procured, and when large demands are made upon them; they then allege unfair dealings againſt exchangers; they fall to work to eſtimate the balance of trade, and endeavour to ſhow that it is not in reality againſt the country.

But alas! this is nothing to the purpoſe; the *balance of trade* may be very favourable, although the *balance of payments* be greatly againſt the country; and both muſt be paid, while the bank has a ſhilling of caſh, or a note in circulation. So ſoon again as the *grand balance* is fairly paid off, it is impoſſible that any one can find an advantage in drawing coin from a bank; except in the ſingle caſe of melting down the heavy ſpecies, in nations which give their coinage gratis. Of this we have treated at ſufficient length in another place.

Banks may indeed complain, that men of property ſometimes ſend their money out of the country, at a time when it is already drained of its coin; becauſe this raiſes exchange, and hurts the trading intereſt.

Exchange muſt riſe, no doubt, in proportion as the grand balance is great, and difficult to be paid: But where does the blame lie? Who ought to provide the coin, or the bills for paying this grand balance? Have we not ſhewn that it is the bank alone who ought to provide coin for the ready anſwering of their notes? Have we not ſaid, that the method of doing this is to ſacrifice a part of the

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the intereſt due upon the obligations in their hands, which are ſecured upon the ſolid property of the country, and to appropriate this ſum of intereſt for a fund to pay regularly the intereſt of the foreign loans, which will procure either the metals themſelves, or a power to draw on thoſe places where the nation's creditors reſide?

Which of the two has moſt reaſon to complain, the bank, becauſe the inhabitants think fit to ſend their effects out of the country, being either forced ſo to do by their creditors, or chooſing ſo to do for their private advantage; or the creditors of the bank, and the country in general, when (from the obſtructions the bank throws in the way, when required to pay its notes) exchange is forced up to an exorbitant height; the value of what private merchants owe to ſtrangers is raiſed; and when, by diſcouraging trade in their hands, a ſtop is put to manufactures and credit in general?

In a word, the bank has no reaſon to complain, unleſs they can make it appear, how any perſon, exchanger or other, can find an advantage in ſending coin out of the country, at a time when there is no demand for it; or when there is no near proſpect of a demand which is the ſame thing? To ſay that a principle of public ſpirit ſhould prevent a perſon from doing with his property what is moſt to his advantage, for the ſake of ſaving ſome money to a bank, is ſuppoſing the bank to be the public, inſtead of being the ſervant of the public.

Another argument to prove that no profit can be made by ſending out coin, except when the balance is againſt a country, is, that we ſee all runs upon banks

banks ſtop, the moment exchange becomes favourable. Were there a profit to be made upon ſending off coin, independently of the debts to be paid with it, which cannot be paid without it, the ſame trade would be profitable at all times. As this is not the caſe, it follows, that the principle we have laid down is juſt; to wit, that the balance due to foreigners *muſt* be paid by banks, while they have a note in circulation; and when once it is fairly paid by them, all extraordinary demands *muſt* ceaſe.

We now proceed to another point, to wit, What are the conſequences to circulation, when a great balance draws away a large quantity of coin from the bank, and ſends it out of the country?

CHAP. XII.

In what Manner the Payment of a wrong Balance affects Circulation.

THAT I may communicate my ideas with the greater preciſion, I muſt here enter into a ſhort detail of ſome principles, and then reaſon on a ſuppoſition.

It has been ſaid, that the conſequence of credit and paper-money, ſecured on ſolid property, was to augment the maſs of the circulating equivalent, in proportion to the uſes found for it.

Theſe uſes may be comprehended under two general heads. The firſt, *payment* of what one owes; the ſecond, *buying* what one has occaſion for: the one and the other may be called by the general term of *ready-money demands*.

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Whoever has a ready-money demand upon him, and property at the ſame time, ought to be furniſhed with money by banks which lend upon mortgage.

Now the ſtate of trade, of manufactures, of modes of living, and of the cuſtomary expence of the inhabitants, when taken altogether, regulate and determine what we may call the maſs of ready-money demands, that is, of alienation. To operate this multiplicity of payments, a certain proportion of money is neceſſary. This proportion again may increaſe or diminiſh according to circumſtances; although the quantity of alienation ſhould continue the ſame.

To make this evident, let us ſuppoſe the accounts of a whole city kept by one man; alienation may go on without any payment at all, until accounts be cleared; and then nothing will be to be paid, except general balances upon the whole. This however is only by the bye. The point in hand is to agree, that a certain ſum of money is neceſſary for carrying on domeſtic alienation; that is, for ſatisfying ready-money demands: let us call this quantity (A).

Next, in moſt countries in Europe (I may ſay all), it is cuſtomary to circulate coin, which, for many uſes, is found fitter than paper (no matter for what reaſon); cuſtom has eſtabliſhed it, and with cuſtom even ſtateſmen muſt comply.

The paper-money is generally made payable in coin; from cuſtom alſo. Now, according to the manners of the country, more or leſs coin will be required for domeſtic circulation. Let it be obſerved, that hitherto we have not attended to foreign

ign circulation, of which preſently: and I ſay, at the manners of a country may make more or s coin neceſſary, for circulating the ſame quan- y of paper; merchants, for inſtance, circulate ich paper and little coin; gameſters circulate ich coin and little paper: one example is ſuffi- nt.

Let this quantity of coin, neceſſary for circulat- ; the paper-money, be called (B), and let the per-money be called (C); conſequently (A) will equal to the ſum of (B) and (C). Again, we ve ſaid, that all balances owing by nation to na- n, muſt be paid either in coin, or in the metals, in bills; and that bank paper can be of no uſe ſuch payments. Let the quantity of the metals, n, or bills, going out or coming into the country payment of ſuch balance, be called (D).

Theſe ſhort deſignations premiſed, we may rea- with more preciſion. (A) is the total maſs of ney (coin and paper) neceſſary at home: (A) is npoſed of (B) the coin, and of (C) the paper- ney, and (D) ſtands for that maſs of coin, or tal, or bills, which goes and comes according as *grand balance* is favourable or unfavourable with er nations.

Now, from what has been ſaid, we may deter- ie that there ſhould at all times remain in the ntry, or in the bank, a quantity of coin equal B); and if this be ever found to fall ſhort, the k does not diſcharge its duty. It is unneceſſary letermine what part of (B) ſhould be locked up he bank, and what part ſhould remain in circu-

lation: banks themſelves cannot determine this queſtion: all we need to ſay is, that it is the profit of banks to accuſtom people to the uſe of paper-money as much as poſſible; and therefore they will draw to themſelves as much coin as they can.

When a favourable balance of trade brings the price of exchange below par, and brings coin into the country, the conſequence is, either to animate trade and induſtry, to augment the maſs of payments, to ſwell (A), and ſtill to preſerve (C) in circulation; or elſe to make (A) regorge, ſo as to ſink the intereſt of money below the bank lending price: in this caſe people will carry back the regorging part of (C) to the bank, and withdraw their ſecurities; which is conſolidating, as we have called it, the property which had been formerly melted down, for want of this circulating equivalent (money).

This is conſtantly the conſequence of a ſtagnation of paper, from an overcharge of it, thrown into circulation. It returns upon the bank, and diminiſhes the maſs of their ſecurities, but never the maſs of their coin.

From this we may conclude, that the circulation of a country can only abſorb a determinate quantity of money (coin and paper); and that the leſs uſe they make of coin, the more uſe they will make of paper, and *vice verſâ*.

We may alſo conclude, that when trade and alienation increaſe, *cæteris paribus*, ſo will money; that is, more ſolid property will be melted down; and when trade and alienation diminiſh, *cæteris paribus*,

ribus, ſo will money; that is, ſome of the ſolid property formerly melted down, will conſolidate, as we have called it.

Theſe viciſſitudes in the maſs of circulation are not peculiar to paper currency. In countries where nothing circulates but the metals, the caſe is the ſame; the operation only is more aukward and expenſive. When coin becomes ſcarce, it is hardly poſſible, in remote provinces, to find any credit at all: and in the centre of circulation, the uſe of it (intereſt) muſt riſe very conſiderably, and muſt ſtand high for ſome time, before even intelligent merchants will import bullion to the mint; which is the only bank they have to fit it for circulation. When the metal is coined, then men of property are enabled to borrow, or to ſell their lands. On the other hand, when a favourable balance pours in a ſuperfluity of coin, which at the ſame time cuts off the demands of trade for ſending it abroad, it frequently falls into coffers; where it becomes as uſeleſs as if it were in the mine; and this clumſy circulation, as I may call it, prevents coin from coming into the hands of thoſe who would have occaſion for it, did they but know where to come at it. Paper-money, on the other hand, when banks and trade are well eſtabliſhed, is always to be found. Thus, in an inſtant, paper-money either creates or extinguiſhes an intereſt equal to its value, in favour of the poſſeſſor. No part of it lies dead, not for a day, when employed in trade: it is not ſo of coin.

Let us now ſuppoſe a bank eſtabliſhed in a country which owes a balance to other nations.

In this caſe, the bank muſt poſſeſs, or be able to command, a ſum of coin or bills equal to (B) and (D); (B) for domeſtic, and (D) for foreign circulation.

Thoſe who owe this balance (D), and who are ſuppoſed to have value for it, in the currency of the country, muſt, in order to pay it, either exhauſt a part of (B), by ſending it away, or they muſt carry a part of (C) to the bank, to be paid for in coin. If they pick up a part of (B) in the country, then the coin in circulation, being diminiſhed below its proportion, the poſſeſſors of (C) will come upon the bank for a ſupply, in order to make up (B) to its former ſtandard. Banks complain without reaſon. If they carry part of (C) to be changed at the bank, for the payment of (D), they thereby diminiſh the quantity of (C); conſequently there will be a demand upon the bank for more notes, to ſupport domeſtic circulation; becauſe thoſe notes which have been paid in coin by the bank are returned to the bank, and have diminiſhed the maſs of (C); which therefore muſt be replaced by a new melting down of ſolid property.

Now I muſt here obſerve, that this recruit of notes, ſuppoſed to be iſſued by the bank, in order to fill up (C) to the level, really implies an addition made to the maſs of ſecurities formerly-lodged with the bank: and repreſents, not improperly, that part of the landed property of a country which the bank muſt diſpoſe of to foreigners, in order to procure from them the coin or bills neceſſary for anſwering the demand of (D).

When

When notes, therefore, are carried to the bank for payment of debts due to the bank, they then diminiſh the maſs of ſolid property melted down in the ſecurities lodged in the bank: but when notes are carried to the bank, to be converted into coin or bills, for foreign exportation, they do not diminiſh the maſs of the ſecurities: on the contrary, the conſequence is, to pave the way for the augmentation of them; becauſe I ſuppoſe that theſe notes, ſo given in to the bank, and taken out of the circle, are to be replaced by the bank, to domeſtic circulation, to which they belonged; and the bank muſt be at the expence of turning into coin or foreign bills, the value of theſe additional ſecurities granted for this new recruit of notes.

Is not this quite conſiſtent with reaſon, fact, and common ſenſe? If a country contract debts to foreigners, are not the conſequences juſt the ſame as when one man contracts a debt to another in the ſame ſociety? Muſt not the ultimate conſequence of ſuch debts be, that they muſt be paid, either with the coin, with the moveables, or with the ſolid property of the debtor, transferred to the creditor, in lieu of the money owing?

When a nation can pay with its coin, or with its effects (that is to ſay, with its product and manufactures), the operation is eaſily and mechanically performed by the means of trade: when theſe objects are not ſufficient; then land, or an annual and perpetual income out of it, muſt make up the deficiency; in which caſe more ſkill and expence is required; and this expence falling upon banks, makes

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their trade leſs lucrative than in times when commerce ſtands at par, or is bringing in a balance.

Were trade to run conſtantly againſt a country, the conſequence would be, that the whole property of it would, by degrees, be transferred to foreigners. But in this caſe, banks never could neglect laying down a plan whereby to avoid a conſtant loſs ſimilar to what they caſually ſuſtain, when ſuch a revolution comes ſuddenly or unexpectedly upon them.

The method would be, to eſtabliſh an annual ſubſcription *abroad*, for borrowing a ſum equivalent to the *grand balance;* the condition being to pay the intereſt of the ſubſcriptions out of the revenue of the country.

If the ſecurity offered be good, there is no fear but ſubſcribers will be found, while there is an ounce of gold and ſilver in Europe.

The bank of England has an expedient of another nature, in what they call their *bank circulation;* which is a premium granted to certain perſons, upon an obligation to pay a certain ſum of coin upon demand. This is done with a view to anſwer upon preſſing occaſions. But England being a proſperous trading nation, which ſeldom has any conſiderable *grand balance* againſt her (except in time of war, when the public borrowings ſupply in a great meaſure the deficiency, as ſhall be afterwards explained), this bank circulation is turned into a job; the ſubſcriptions being lucrative, are diſtributed among the proprietors themſelves, who make no proviſion for the demand; and were the demand

demand again to come upon them (as has been the caſe) the ſubſcribers would, as formerly, make a call on the bank itſelf, by picking up their notes, and pay their ſubſcriptions with the bank's own coin.

To obviate this inconvenience, which was ſeverely felt in the year 1745, the bank of England ſhould have opened a ſubſcription for a perpetual loan in ſome foreign country; Holland, for example; where ſhe might have procured large quantities of foreign coin: ſuch a ſeaſonable ſupply would have proved a real augmentation of the metals; the ſupply they got from their own domeſtic ſubſcribers was only fictitious *.

But banks in proſperous trading nations ſit down with caſual and temporary inconveniences; and exchangers carry on a profitable trade, whether the nation be gaining or loſing all the while. For ſuch nations, and ſuch only, are banks advantageous. Were banks eſtabliſhed in Spain, Portugal, or any other country which pays a conſtant balance from the produce of their mines, they would only help on their ruin a little faſter.

* At this time there was another circumſtance, beſides the demand of a balance to be paid abroad, which diſtreſſed the bank, viz. a ſuſpicion which took place, that if the rebellion had ſucceeded, the credit of the bank would have totally failed.

This very caſe points out the great advantage of banks upon mortgage of private credit.

We have ſaid, that the credit of ſuch banks ought to be eſtabliſhed upon the principles of private ſecurities only. If their notes be iſſued upon ſolid property, then no rebellion can influence them: but of this more hereafter.

In

In the infancy of banking, and in countries where the true principles of the trade are not well underſtood, we find banks taking a general alarm, whenever a wrong balance of trade occaſions a run upon them. This terror drives them to expedients for ſupporting their credit, which we are now to examine, and which we ſhall find to have a quite contrary tendency.

The better to explain this combination, we muſt recall to mind, that the payment of the *grand balance* in coin or bills is unavoidable to banks. We have ſaid that this balance is commonly paid by exchangers, who pick up the coin in circulation; a thing the bank cannot prevent. This we have called exhauſting a part of (B): the conſequence of this is, to make the proprietors of (C) come upon the bank, and demand coin for filling up (B): to this the bank muſt alſo agree. But by theſe operations (C) comes to be diminiſhed, below the level neceſſary for carrying on trade, induſtry, and alienation: upon which I have ſaid there commonly comes an application to the bank to give more credit, in order to ſupport domeſtic circulation, which if complied with, more ſolid property is conſequently melted down.

This ſwells the maſs of ſecurities, and raiſes (A) to its former level. But here the bank has a choice, and may refuſe to grant more credit: in the former operations it had none. Now if the bank, from a terror of being drained of coin, ſhould refuſe to iſſue notes upon new credits, for the demands of domeſtic circulation; in this caſe, I ſay, they

they fail in their duty to the nation, as banks, and hurt their own intereſt. As to their duty to the nation, I ſhall not inſiſt upon it; but I think I can demonſtrate that they fail in their manner of reaſoning, with reſpect to their own intereſt, and that is enough.

I ſay, then, that as long as there is one ſingle note in circulation, and any part of a grand balance owing, this note will come upon the bank for payment, without a poſſibility of its avoiding the demand. Refuſing therefore credit, while any notes remain in the hands of the public, is refuſing an intereſt which may help to make up the paſt loſſes: but of this more hereafter.

In the next place, I think I have demonſtrated, that as ſoon as the *grand balance* is paid, it is impoſſible that any more demands for coin can come upon the bank for exportation. Why then ſhould a bank do ſo ſignal a prejudice to their country, as to refuſe to lend them paper, which the ready-money demands of the country muſt keep in circulation? And why do this at ſo great a loſs to themſelves? It has been ſaid above, and I think with juſtice, that this recruit, iſſued to fill up circulation, adds to the maſs of bank ſecurities, and very properly repreſents that part of the income of the ſolid property of the country, which the bank muſt diſpoſe of to foreigners, in order to procure from them the coin or bills neceſſary for anſwering the demand for payment of a *grand balance*.

In this light nothing can appear more imprudent, than to refuſe credit.

A bank

A bank is forced to pay to the laſt farthing of this balance; by paying it, the notes that were neceſſary for domeſtic circulation are returned to them; and they refuſe to replace them, for fear that their ſupplying circulation ſhould create a new balance againſt them! This is voluntarily taking on themſelves all the loſs of banking, and rejecting the advantages of it.

Such management may be prudent when the circulating notes of a bank are very few, and when the balance is very great. In this caſe, indeed, were the thing poſſible, it might be prudent to give over banking for a while, till matters took a favourable turn. But if we ſuppoſe their circulating notes to exceed the balance due, then all the hurt which can be done is done already; and the more notes that are iſſued, and the more credit that is given, muſt be ſo much the better for the bank; becauſe the intereſt due upon all that are iſſued above the balance, muſt be clear profit to the bank.

To bring what has been ſaid within a narrower compaſs, and to lay it under our eye at once, let us call the ſum of money neceſſary for carrying on the domeſtic circulation of a country, where a bank is eſtabliſhed, (A).

The ſpecie itſelf, to carry it on, (B).

The balances to other nations, (D).

The bank muſt be able to command coin and credit equal to the ſum of (B) and (D). If they have in credit the value of (D) in any foreign place, where a general circulation of exchange is carried on, then they have occaſion only for (B) at home, and can furniſh bills to the amount of (D).

But

But in furniſhing bills to the amount of (D), thoſe who receive the bills from the bank, muſt pay to the bank the value of theſe bills in bank notes; and the notes with which they pay for the bills, muſt be taken out of (A), which (A) we ſuppoſe to be neceſſary for carrying on domeſtic circulation. This diminution upon the value of (A), will occaſion a new demand for notes in order to carry (A) to its former extent; and the bank at iſſuing the notes demanded, will receive new ſecurities from thoſe who demand them. Farther, the intereſt paid upon theſe new ſecurities, will anſwer for the payment of the intereſt of the money owing to foreigners, in conſequence of the bills drawn upon them to the order of thoſe who bought the bills from the bank for the payment of (D).

This tranſaction concluded, the conſequence will be; that (A) will be made up to the complete ſum neceſſary for domeſtic circulation; and that the intereſt of the money borrowed from foreigners, in order to acquit the balance (D), will be paid out of the intereſt paid upon the new ſecurities.

As ſoon as (D) is thus completely paid off, were coin drawn from the bank, and ſent away by private people, (exchangers, &c.) it would form a balance due to the country; which balance would render exchange favourable, and would occaſion a loſs to thoſe who ſent away the coin. During this period, the more credit the bank gives, ſo much more will its profits increaſe, and no demand can be made upon it for coin.

To conclude: Let banks never complain of thoſe who demand coin of them, except in the caſe when it

it is demanded in order to be melted down, or for domeſtic circulation, which may as well be carried on with paper.

And ſo ſoon as a demand for coin to pay a foreign balance begins, it is then both the duty and intereſt of all good citizens to be as aſſiſtant as poſſible to banks, by contenting themſelves with paper for their own occaſions, and by throwing into the bank all the coin which caſually falls into their hands. As for duty, I ſhall offer no argument to enforce it. But I ſay it becomes a national concern to aſſiſt the bank; becauſe the loſs incurred by the bank in procuring coin, falls ultimately on every individual, by raiſing exchange; by raiſing prices; by raiſing the intereſt of money to be borrowed; and, laſt of all, by conſtituting a perpetual intereſt to be paid to foreigners, out of the revenue of the ſolid property of the country. Upon ſuch occaſions, a good citizen ought to bluſh at pulling out a purſe, when his own intereſt, and that of his country, ſhould make him ſatisfied with a pocket book.

CHAP.

CHAP. XIII.

Continuation of the ſame Subject; and of the Principles upon which Banks ought to borrow Abroad, *and* give credit at Home.

IN every queſtion relative to this ſubject, we muſt return to principles. This is the only ſure method of avoiding error. The more intelligent reader, therefore, muſt excuſe ſhort repetitions, and conſider them as a ſacrifice he is making to thoſe of ſlower capacities, to whom they are uſeful.

The principle of banking upon mortgage, is to lend paper money, and to give credit to thoſe who have property, and a deſire to melt it down. This is calculated for the benefit of trade, and for an encouragement to induſtry. If ſuch banks, therefore, borrow, it muſt be done conſiſtently with the principles upon which their banking is founded. If the borrowing ſhould tend to deſtroy thoſe advantages which their lending had procured, then the operation is contrary to principles, and abuſive. So much for recapitulation.

While trade flouriſhes and brings in a balance, banks never have occaſion to borrow; it is then they lend and give credit. This, I believe, we may take for granted.

When the country where the bank is eſtabliſhed begins to owe a balance to other nations, the bank, as we have ſeen in the laſt chapter, is obliged to pay it off in coin or in bills. We have there ſhewn, that

that in ſuch caſes it is inconſiſtent with their principles and intereſt, to withhold lending and giving credit, as far as is neceſſary for keeping up the fund of domeſtic circulation to that ſtandard which alienation and ready-money demands require.

To refuſe credit, and at the ſame time to borrow *at home*, muſt then, at firſt ſight, appear to be doubly inconſiſtent. But in order to ſet this point in the cleareſt light I am capable, I ſhall reaſon upon a ſuppoſition analogous to the ſituation of the Scotch banks, and by this means avoid abſtract reaſoning as much as I can.

Let me then ſuppoſe that Scotland, during the laſt years of the war, ended in 1763, and ever ſince (I write in 1764), from the unavoidable diſtreſs of the times, was obliged, firſt, to import conſiderable quantities of grain in ſome bad years; ſecondly, to refund the Engliſh loans of money ſettled there in former times; thirdly, to furniſh ſome of the inhabitants with funds, which they thought fit to place in England; fourthly, to pay the amount of additional taxes impoſed during the war; while, at the ſame time, ſeveral of the ordinary reſources were withdrawn; ſuch as, firſt, a great part of the induſtrious inhabitants who went to ſupply the fleets and armies; ſecondly, the abſence of the ordinary contingent of troops; and thirdly, the cutting off of ſeveral beneficial articles of commerce. Let me ſuppoſe, I ſay, that from the total of theſe loſſes incurred, and advantages ſuſpended, Scotland has loſt annually, for eight years paſt, two hundred thouſand pounds. I am no competent judge

judge of the exactneſs of this eſtimate, it is of no conſequence to the argument; but I think I have carried it, as I wiſh to do, rather beyond the truth.

On the other hand, let me ſuppoſe that the ſum of currency in paper, ſufficient (with the little coin there was) to circulate the whole of the alienations in Scotland (that is to ſay, the whole domeſtic circulation, ſuppoſing no balance to be owing to England or other countries) to be one million ſterling. I am perſuaded I am here below the true eſtimate, but no matter.

Is it not evident, from this ſuppoſition, and from the principles we have been deducing, that unleſs the banks of Scotland had borrowed every year 200,000*l.* ſterling, and alienated annually in favour of England, a fund for paying the intereſt of two hundred thouſand pounds capital; the million of Scots currency would have been diminiſhed in proportion to the deficiency: and would not the conſequence of this be, *cæteris paribus*, to bring the currency below the demand for it; and, conſequently, to hurt trade, induſtry, and alienation?

Now ſuppoſing the banks, inſtead of borrowing in England a fund equal to this grand balance (as I have ſaid they ſhould do), to remain in conſternation and inactivity, giving the whole of their attention to the providing of coin and bills to ſupply the demand of exchangers, whoſe buſineſs it is to ſend out this annual balance; what would the conſequence be?

I anſwer, that if the banks, in ſuch a caſe, do not follow the plan I have propoſed, the conſe-

quence will be, that two hundred thouſand pounds of their paper will be, the firſt year, taken out of the domeſtic circulation of Scotland; will be carried to the bank, and coin demanded for it. If the coin is found in the bank, it is well: it goes away, and leaves the paper circulation of Scotland at 800,000*l.* This void muſt occaſion applications to the bank for credits to ſupply it. Is it not then the intereſt of the bank to ſupply it? We have ſaid in the former chapters that it is. But now let us ſuppoſe it to be objected, that if banks ſhould iſſue notes at ſuch a time, their caſh having been exhauſted, they would be obliged to ſtop altogether, upon a return of thoſe notes iſſued upon additional credits.

To this I repeat again, becauſe of the importance of the ſubject, that notes iſſued to ſupport the demand of circulation never can return upon the bank, ſo as to form a demand for coin; and if they do return, it muſt be in order to extinguiſh the ſecurities granted by thoſe who have credit in bank (I except always that regular demand for coin, at all times neceſſary for circulating the paper for domeſtic uſes); and if thoſe notes return of themſelves, without being called in, this phænomenon would be a proof that circulation is diminiſhing of itſelf: but ſuppoſing ſuch a caſe to happen, it is plain that ſuch return can produce no call for coin; becauſe when the notes return it is not for coin, but for acquitting an obligation or mortgage, as has been often repeated.

Notes are paid in, I ſay, becauſe circulation has thrown them out. Now if circulation has thrown

them out as ſuperfluous, it never can have occaſion for coin in their ſtead; becauſe coin anſwers the ſame purpoſe.

But then it is urged that they do not return, becauſe circulation has thrown them out, but becauſe coin is wanted: be it ſo. Then we muſt ſay, that circulation is not diminiſhed, as we at firſt ſuppoſed; but that the return of another year's balance, makes a new demand for coin neceſſary.

Now I aſk, how the withholding of this 200,000*l.* from circulation, after the firſt year's drain, can prevent the balance from returning? There are by the ſuppoſition ſtill 800,000*l.* of notes in the country; will not exchangers get hold of two hundred thouſand out of *this* fund, as well as out of the million? For he who owes, *muſt pay*, that is, *muſt circulate*. It is the circulation of the induſtrious only, and of the rich; in ſhort, it is *buying*, that is to ſay, *voluntary circulation*, which is ſtopped for want of currency: *paying*, that is, *involuntary circulation*, never can be ſtopped; debtors *muſt* find money, as long as there is any in the country, were they to give an acre for a ſhilling, or a houſe for half a crown. Now thoſe who owe this foreign balance are debtors; conſequently, they muſt draw 200,000*l.* out of circulation, the ſecond year as well as the firſt, whether the ſtandard million be filled up or not. The withholding, therefore, the credits demanded upon the firſt diminution, has not the leaſt effect in preventing the demand for coin the year following: it only diſtreſſes the country, raiſing exchange, and the intereſt of money, by rendering money ſcarce; and, what is the moſt abſurd

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ſurd of all, it deprives the bank of 10,000*l.* a year intereſt, at 5 *per cent.* upon 200,000*l.* which it may iſſue anew.

Suppoſe again, that a ſecond year's demand for a balance of 200,000*l.* comes upon the bank: if the coin is out, as we may ſuppoſe that after the firſt year's drain it will not be in great plenty, expedients muſt be fallen upon. In ſuch a caſe, if the bank do not at once fairly borrow at London (without any obligation to repay the capital) a ſum of 200,000*l.* and pay for it a regular intereſt, according to the rate of money, as government does, half yearly, on the change of London, it will be involved in expedients which will create a monſtrous circulation of coin in the bank, perhaps double of the ſum required, and all theſe operations will end (as to the bank) in paying this ſum out of the maſs of its ſecurities or ſtock. If the bank ſhould borrow this 200,000*l.* in London, in the manner we have ſaid, the circulating fund of coin will be nowiſe diminiſhed; there will be no call extraordinary for coin, no riſing of exchange; the bank will have *this* in its hands; and if it riſe, it will be the bank, not the exchangers who will profit by it.

But let us ſuppoſe that inſtead of this, it ſhould have recourſe to temporary credits upon which the capital is conſtantly demandable, or to other expedients ſtill leſs effectual for anſwering the call which is to come upon it for the ſecond year's balance; what will be the conſequence? To this I anſwer, that thoſe merchants, or others who owe the balance, will apply to exchangers for bills, for which they muſt pay a high exchange: theſe bills will

will be bought from the exchangers with notes (taken out of circulation), and will reduce this to 600,000*l.* the exchangers will carry theſe to the bank and demand coin. If the bank ſhould make uſe of an optional clauſe, to pay in ſix months, with intereſt at 5 *per cent.* the exchangers will obtain ſix months' credit at London, and in conſequence of this, their bills will be honoured and paid. This credit, however, coſts them money, which is added to the exchange: the bank, at the end of ſix months, muſt pay 200,000*l.* ſterling in coin, which in the interval it muſt provide from London. It muſt pay alſo ſix months' intereſt upon the paper formerly preſented by the exchanger: add to the account, that bringing down the coin muſt coſt the bank at leaſt 12 ſhillings *per* hundred pounds, and as much more to the exchanger who receives it in order to ſend it back again; and after all theſe intricate operations which have coſt ſo much trouble, ill blood, ſtagnation and diminution of circulation, expence in exchange to the debtors of the balance, ſtreſs of credit upon exchangers for procuring ſo large advances with commiſſion, &c. expence to the bank in providing coin, expence to the exchangers in returning it: after all, I ſay, the operation ends in this; that 200,000*l.* of notes, taken out of the circulation of Scotland returns to the bank, who muſt have provided, at laſt, either coin, or credit at London for them. This return of 200,000*l.* of notes does not diminiſh the maſs of thoſe obligations lodged in the bank, in virtue of which they are creditors upon the proprietors of Scotland: conſequently the bank has conſtituted itſelf debtor to England for thoſe

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funds which have been *torn from it* in the manner above deſcribed: conſequently, had it, by a permanent loan, conſtituted itſelf voluntarily debtor to England from the beginning, it would have paid no more, nay leſs than it has been obliged to pay; circulation would not have loſt 200,000*l.* and the bank would have had the intereſt of 200,000*l.* added to its former ſecurities, which would compenſate (*pro tanto* at leaſt) the expence of borrowing this ſum in England upon a permanent fund. Inſtead of which it compenſates the intereſt of a temporary loan, with the ſame ſum of intereſt taken out of the ſecurities in its hand. If, therefore, from an ill-grounded fear of iſſuing as much paper as is demanded, it ſhall withhold it, there will reſult to itſelf a loſs equal to the intereſt of what it refuſes to lend; that is to ſay, there will be a *lucrum ceſſans* to the bank of the intereſt of this 200,000*l.* at 5 *per cent.* or 10,000*l.* a year; which other banking companies will fill up, and thereby extend their circulation.

If, beſides refuſing credits, it ſhould call in any part of thoſe credits already given, it will ſtill more diminiſh circulation: but then by this operation it will diminiſh the maſs of its ſecurities, and ſo diminiſh the ſum of the intereſt annually paid to itſelf. If it go farther and borrow money at home, ſuch loans will be made in its own paper, which will diminiſh farther the maſs of circulation; and if it go on recalling its credits and mortgages, it will ſoon draw every bit of its paper out of circulation, and remain creditor upon Scotland for the balance only it has paid to England on her account. Such are the conſe-

conſequences, when a bank which lends upon private ſecurity withholds credit, at a time when a national balance is due, and when applications are made to it for new credits, to fill up the void of circulation occaſioned by the operations uſed for the payment of the balance: ſuch alſo are the additional fatal conſequences, when to this it adds ſo inconſiſtent an operation as that of borrowing its own notes, or recalling the credits it had formerly given.

By the firſt ſtep, namely, by refuſing credit, it appears paſſive only in allowing natural cauſes to deſtroy both the bank and the nation, as I think has been proved.

By the ſecond, namely, by borrowing its own notes, it is active in deſtroying both itſelf and the country.

What benefit can ever a bank which lends upon private ſecurity reap by borrowing within the country of which it is the centre of circulation; nay, what benefit can it ever reap from withholding its notes from thoſe who can give good ſecurity for them!

Every penny it borrows, or calls in, circumſcribes its own profits, while it diſtreſſes the country. After conſidering all circumſtances, I can diſcover but one motive which (through a falſe light) may engage a bank to this ſtep, to wit, jealouſy of other banks.

As this ſpeculation is deſigned to illuſtrate the principles of circulation, from circumſtances relative to the preſent ſtate of the Scotch banks, let us call things by their names.

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The banks of Edinburgh reſemble, more than any other in Scotland, a national bank. Let me then ſuppoſe all that can be ſuppoſed, viz. that the abundance of their paper has given occaſion to ſmaller banks to pick up from *them* every ſhilling of coin which theſe ſmaller banks have ever had; and that theſe have had the addreſs alſo to throw the whole load of the balance upon thoſe of Edinburgh: let this be ſuppoſed, more cannot, and let us allow farther, that this muſt ever continue to be the caſe. In theſe circumſtances, what motive can the banks of Edinburgh have for withholding credit from thoſe who are able to give ſecurity? What motive can they have for borrowing their own notes?

Indeed I can account for this plan of management in no other way than by ſuppoſing, that, diſguſted at the long continuance of an unfavourable balance of trade againſt their country, and vexed to find the whole load of it thrown upon themſelves, they have taken the reſolution to abandon the trade, and are taking this method to recall their paper altogether.

Let me ſuppoſe the contrary, and I ſhall not be able to diſcover how it is poſſible that ſuch a conduct can turn to their own advantage, throwing out all conſideration for the public good, which for ſome time, no doubt, muſt be greatly hurt by it.

As long as any conſiderable quantity of their notes is in circulation, and while the principal exchangers reſide at Edinburgh, they never can avoid the loſs of paying the balance; conſequently, by refuſing to fill up the void occaſioned by the return of

of their notes, they deliver the whole profit of replacing them to the other banks, their rivals.

Let me next eſtimate the loſs they ſuſtain by furniſhing coin to the other banks for the payment of the balance; and then compare this with what they loſe by not keeping circulation full.

I ſhall ſuppoſe the balance to coſt them two hundred thouſand pounds *per annum;* and I ſhall ſuppoſe that all the ſmaller banks put together have occaſion for two hundred thouſand pounds in their cheſts: Is not this computation far above what can poſſibly be ſuppoſed?

Will it be allowed that if the banks of Edinburgh willingly ſubmit to pay the whole of the bills of exchange demanded on London, for this balance, they will have at leaſt the preference in replacing this ſum to circulation?

If they pay the balance of 200,000*l.* a like ſum of their notes muſt come in to them, without diminiſhing one ſhilling of the intereſt paid upon the ſecurities lodged in their banks; conſequently, the only loſs incurred is the difference between the intereſt they receive, which is 5 *per cent.* and what it would coſt them to borrow a like ſum in London, and to remit the intereſt of this ſum twice a year.

Now the value of a 4 *per cent.* is at preſent about 96; ſo in paying 40*s.* half yearly on the change of London, the Edinburgh banks may have at London a capital of 96*l.* Let me call it only 94*l.* ſuppoſing their credit not to be quite ſo good as that of the funds. I think it as good to the full; and I am ſure it is ſo. At this rate, the 200,000*l.* will coſt them an intereſt of 8510*l.* inſtead of the 10,000*l.* which

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which they will receive for the like ſum added to their former ſecurities. Now let me ſuppoſe that they ſhall have recourſe to exchangers to remit this intereſt, and that they ſhall pay for it 5 *per cent.* (which is an abſurd ſuppoſition, as they will have the exchange entirely in their own hands) and that they give all the bills for the 200,000*l.* at par (alſo a ridiculous ſuppoſition); the 5 *per cent.* on 8510*l.* is 425*l.* 10*s.* which added to the intereſt, makes 8935*l.* 10*s.* ſo that after all, they will have upon the whole tranſaction 1064*l.* 10*s.* of profit.

Next, as to the loſs incurred in furniſhing 200,000*l.* to the other banks: If this coin be demanded of them by thoſe banks, the demanders muſt, for this purpoſe, draw 200,000*l.* of Edinburgh notes out of the circulation of Scotland; which I have ſuppoſed may be replaced in ſome little time by the Edinburgh-banks; conſequently, if this ſum alſo be borrowed at London, there will reſult upon this operation, as well as upon the laſt, a profit of 1064*l.* 10*s.* But then indeed they muſt be at the expence of bringing down the coin borrowed, at 12*s.* *per* 100*l.* becauſe thoſe banks will inſiſt upon having coin, and refuſe bills on London. This will coſt 1200*l.* from which deduct the profit of 1064*l.* 10*s.* gained by the firſt operation, remains of loſs upon this laſt tranſaction 135*l.* 10*s.* no great ſum*. Does it not follow from this reaſoning,

* We are not to ſuppoſe that this yearly balance of 200,000*l.* is always to continue. We have ſeen how it has been occaſioned by a courſe of unfavourable circumſtances, which have run Scotland in debt; we have ſeen how the banks may interpoſe their credit, in order to aſſiſt the country in paying it; and we ſhall ſee,

ſoning, that the banks of Edinburgh will have the whole buſineſs of exchange in their own hands? What exchanger then will enter into competition with them? The domeſtic tranſactions with the merchants and manufacturers of Scotland will be their only buſineſs. Farther:

What prevents the banks of Edinburgh to have offices in every trading town in Scotland, where their notes may be regularly paid on preſentation, and new credits given as circulation demands them?

The only objection I can find to this plan of banking, is the difficulty of finding credit at London to borrow ſuch large ſums.

This, I think, may alſo be removed, from the plain principles of credit. If the banks of Edinburgh enter into a fair coalition, as they ought to do, I think, in order to form really a national bank, totally independent of that of England; may they not open a ſubſcription at London, and eſtabliſh a regular fund of their own, as well as any other company, ſuch as the India, or South Sea? By borrowing in the beginning at a ſmall advance of intereſt above the funds, and paying as regularly as government does, will not all thoſe who make a trade of buying and ſelling ſtock fill their loan, rather than inveſt it in any other carrying a leſs inte-

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ſee, before we diſmiſs this ſubject, how they will be enabled to repay it, and ſet Scotland free, by a return of a favourable balance upon their commerce. Let it then be remembered, that all thoſe contracts in England are properly the debts of Scotland, not of the banks. Scotland, therefore, and not the banks, muſt be at all the expence thereby incurred. Theſe points ſhall be explained as we go along.

reſt?

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reſt? And if the whole land ſecurities, and ſtocks of thoſe banks at Edinburgh be pledged for this loan, will it not ſtand on as good a bottom as any fund upon earth? And can it be doubted but parliament will encourage ſuch a ſcheme, upon laying the affairs of Scotland and the banks properly before them?

By this means they will really become a national bank: becauſe England ſeems at preſent to be to Scotland, what all the reſt of the world is to England. Now, the bank of England has no ſuch fund of credit on the continent, that I know; and were that country to fall into as great diſtreſs, by a heavy balance, as Scotland has, ſhe would find as many difficulties in extricating herſelf by domeſtic borrowings, bank circulation, &c. as Scotland has found by the like domeſtic expedients. She would then be obliged, for her relief, to have recourſe to a fund opened in Holland, Spain, or Portugal, like to what I propoſe for Scotland with reſpect to England.

I have heard it alleged, that the whole diſtreſs occaſioned to the banks and circulation of Scotland, was occaſioned by a falſe ſtep taken by them, ſome years ago; at the time when the lowneſs of the Engliſh funds, and a proſpect of a peace, occaſioned great remittances from Scotland, and a withdrawing of the large capital of, perhaps, 500,000*l.* owing in Scotland to Engliſh perſons of property.

At that time, it is ſaid, the banks imprudently launched out in giving extenſive credits to the debtors of thoſe capitals, and to thoſe who wanted to remit the funds they had ſecured in the hands of people

people who could not pay them; that this threw a load of paper into circulation, which it could not vent, being far beyond the extent of it; and that, conſequently, the paper came back upon the bank, produced a demand for coin, which ſoon exhauſted, in a manner, all that was in Scotland; and that the country has never been able to recover itſelf ſince.

This repreſentation is plauſible, and has an air of being founded on principles: in order therefore to ſerve as a further illuſtration of the ſubject of circulation, I ſhall point out where the fallacy of it lies.

It is ſaid the banks did wrong in giving thoſe credits. I ſay, they did right; but they did wrong in not providing againſt the conſequences.

Had they refuſed the credits, the Engliſh and other creditors would have fallen directly upon their debtors, and obliged them to pay, by a ſale of their lands, at an under value; which, I think, would have been an infinite loſs to Scotland. In this way the price would have been paid in bank paper, taken out of circulation; for we have ſaid, that *he who owes muſt pay*, be the conſequence what it will. This paper would have come upon the banks at any rate: and being a balance due to ſtrangers, muſt have been paid by the banks. The banks therefore did right to ſupply the credits demanded; but then they might have foreſeen that the whole load of paying thoſe debts would fall upon them; which they being in no capacity to do, ſhould have immediately pledged in England, the intereſt of the credits they had given out, after ſupplying

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plying the want of Scots circulation, and when the notes came in, they would have had at London the capital of that intereſt prepared for paying them off, and no inconvenience would have been found.

The only thing then the banks ſeem to have miſjudged, was the granting thoſe credits too haſtily, and to people who perhaps would not have inveſted their funds in England, had it not been from their facility in giving credit.

Banks therefore ſhould well examine the ſtate of circulation, and of the grand balance, in difficult times, before they give credit. If circulation be full, they may, with juſtice, ſuſpect that the credits are demanded with a view of expediency, to tranſport property out of the country, which otherwiſe may remain. But in favour of circulation, or in favour of what may be exacted by foreign creditors, banks never can misjudge it in giving credit; becauſe, if they ſhould refuſe to do it, they in the firſt place incur a loſs themſelves; and in the ſecond place, they diminiſh the fund of circulation, and thereby hurt the country. Now when, at ſuch times, a credit is aſked or given, that demand is a warning to banks to prepare; and by preparing they are ready, and no loſs is incurred.

Upon the whole, it is an unſpeakable advantage to a nation to have her foreign debts paid by her bank, rather than to remain expoſed to the demands of private foreign creditors; becauſe, when a bank pays them, I ſuppoſe her to do it upon a loan in the funding way, where the capital is not demandable by the creditor; whereas when private

vate citizens are debtors to ſtrangers, the capitals are always demandable; and when a call comes ſuddenly and unexpectedly, the country is diſtreſſed. What would become of Great Britain, were all her debts to ſtrangers demandable at any time? It is the individuals who owe, in effect, all that is due to foreigners; becauſe they pay the intereſt: but they pay this intereſt to the public; and the public appears as the debtor to all ſtrangers, who have no right to exact the capital, although the ſtate may ſet itſelf free by making payment of it whenever it is convenient.

I have ſaid above, that after all my reaſonings, I could diſcover but one motive to induce a bank to withhold credit at a time when it was demanded for the uſe of domeſtic circulation, viz. jealouſy of other banks. What my combinations could not then diſcover, my inquiries have ſince unfolded.

It is ſaid, that the banks finding ſo great a propenſity in the inhabitants of Scotland to conſume foreign manufactures and produce, fell upon this expedient for calling in the old, and for refuſing new credits, in order to cut off ſuch branches of hurtful luxury and expence.

Could the execution of ſuch a plan prove a remedy againſt the vice complained of, this circumſtance alone would more clearly demonſtrate the utility of banks upon mortgage, than all I have been able to ſay in favour of this eſtabliſhment.

Let us therefore have recourſe to our principles, in order to diſcover what influence a bank can have in this particular.

We

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We have diſtinguiſhed between *neceſſary* and *voluntary* circulation: the *neceſſary* has the *payment of debts;* the *voluntary* has *buying* for its object.

We have ſaid that he who owes is either a bankrupt, or *muſt pay*, as long as there is a ſhilling in the country.

But he who buys, or inclines to buy, *muſt have money*, or he can buy nothing; for if he buys on credit, he then falls immediately into the former category, and *muſt pay.*

By withholding money for the uſes of circulation, which banks may do for ſome time, buying *may* be ſtopped; paying *never can.*

Now if the maſs of money in circulation be brought ſo low, as that the *higher* claſſes of the people, who conſume foreign productions, cannot find money to buy with, what are we to ſuppoſe will be the caſe with manufacturers, and with the merchants who buy up *their* work? Could this operation of the bank affect the *higher claſſes* only, by curbing their anti-patriot expences, without affecting the *lower claſſes*, by curbing their induſtry, I ſhould think it an admirable diſcovery. If it even could be made to affect thoſe merchants and ſhop-keepers only, who deal in foreign commodities, ſo as to diſcourage them from carrying on that buſineſs, there would reſult from it a notable advantage.

But alas! wherein are they hurt? They trade in ſuch commodities, not becauſe they are bad citizens, but becauſe they are freemen, and ſeek for profit wherever the laws permit.

Perhaps

Perhaps, they find more difficulty than other people in forcing coin from the bank, as matters ſtand: perhaps, they are loaded with opprobrious appellations for extorting ſuch payments from the bank: perhaps, their credits with the bank are recalled. But muſt not thoſe who buy from them, pay them? And muſt not the bank give coin, or bills, for the notes they receive, when preſented for payment? Why, therefore, throw difficulties in the way? All the world knows, that no human engine can prevent a merchant from laying all the expences of his trade upon the conſumer. Correct the taſte of the conſumers, and you may ſtop the trade: no other reſtraint will be of any conſequence. But in order to correct the taſte of conſumers, do not deprive them abſolutely of money; becauſe the money the extravagant landlord receives, comes from the induſtrious farmer, for the price of his grain, &c. Would it be a good ſcheme for preventing ſoldiers from drinking brandy, to cut off their ſubſiſtence-money? Give a drunkard but a penny a day, it will go for liquor; and thoſe who are fond of foreign clothing, will take the price of it from their bellies, to put it on their backs.

If this ſcheme of the bank's withholding credit, prove, at preſent, any check to thoſe dealers in Engliſh goods, it will be but for a very ſhort time. They have been taken by ſurprize; and perhaps, thrown into inconveniences from an unexpected change of bank management; but as long as there is a demand for ſuch commodities, there will be a

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ſupply of them; and when people owe, they *muſt pay*. No operation of a bank can prevent this.

I muſt, therefore, according to principles, diſapprove of this public-ſpirited attempt in the banks of Edinburgh; becauſe, if it ſhould ſucceed, it will have the effect of ruining all the trade and induſtry of Scotland, in order to prevent the ſale of Engliſh goods: and if it does not ſucceed, which is more than probable, from the aſſiduity of other banks in ſupplying credit, it will have the effect of ruining the banks of Edinburgh themſelves.

This ſtep, of calling in the bank credits, and opening a ſubſcription for a loan, is repreſented by others in a light ſomewhat different.

By theſe it is alleged, that in the beginning of the year 1762, when the Edinburgh banks withdrew $\frac{1}{4}$ of all their caſh accompts, and opened a ſubſcription for borrowing their own notes, at an intereſt of 4, and even 5 *per cent.* the demand for money, to ſend to England, was not occaſioned by the great balance owing by Scotland, but to the high premium money then bore at London; becauſe, ſays the author of a letter to J... F..... Eſq; publiſhed at that time,

"This demand ariſes from a profit on carrying "money to London, *as a commodity*, and not as a "balance of trade."

It is not eaſy to comprehend how there could be much profit in carrying money to London at 3 *per cent.* loſs by exchange, from Scotland, where it bore 5 *per cent.* intereſt.

It is true, that at certain times, there were conſiderable profits made upon ſtock-jobbing; by which ſome won, and others were ruined. I agree, that the country was greatly hurt by the folly of thoſe who played away their own property, and by the roguery of others, who borrowed that of their neighbours, with an intention of gaming at their riſk. But is this a vice which any bank can correct, while is has a note in circulation?

Had it therefore been a ſentiment of patriotiſm which moved the banks to ſuch a plan of conduct, I ſay they thereby did more hurt to induſtry, by contracting circulation, than good to Scotland, by attempting a thing which was beyond their power to accompliſh.

If they were moved to it by a principle of ſelf-preſervation, I ſay they loſt their aim, by cutting off their own profits, which would have done much more than indemnify them for the loſs of borrowing at London, at the time when money there was hardeſt to be got: for whatever exorbitant expence of exchange gameſters may incur, to procure ready money to play with, the rate of the ſtocks at that time never was ſo low, as to afford a profit upon money remitted at 3 *per cent.* loſs by exchange, while that money was bearing 5 *per cent.* intereſt at home.

The loweſt rate of ſtocks was in January 1762. Towards the end of that month 3 *per cents.* fell to 63¼: this makes the value of money to be about 4*l.* 12*s.* *per cent.* In theſe funds, certainly, no body could inveſt, with profit, money ſent from Scotland.

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After the new ſubſcription had been open for ſome time, ſcrip indeed, or 4 *per cent.* fell in this month ſo low as $74\frac{1}{2}$, that is, money roſe to 5.4 *per cent.* whereas had ſcrip ſtood at the proportion of the 3 *per cents.* it ſhould have been worth about 84: but at the beginning of a war with Spain, when the minds of men were depreſſed, and filled with apprehenſions, and when a new loan was perhaps expected at a higher intereſt than ever government had given, was it natural for people to be fond of inveſting in a 4 *per cent.* ſtock, which was to fall to 3 *per cent.* in a few years?

Beſides, let us examine the profit to be made by inveſting even in this fund. 100*l.* produced in Scotland 5*l.* intereſt, this capital remitted to London at 3 *per cent.* exchange, was reduced to 97*l.* now if 74.5*l.* produced 4*l.* the produce of 97*l.* would be about 5*l.* 4*s.* Would any man for the ſake of $\frac{1}{2}$ *per cent.* advance of intereſt on money remitted, ever think of ſending large ſums to London to be inveſted in a falling ſtock?

I allow that, upon opening ſubſcriptions, great profit was ſometimes made by thoſe who contracted with government, and who received the ſubſcriptions at prime coſt. But this profit depended entirely upon the ſubſequent riſe of the ſubſcription, when the original ſubſcribers brought it firſt to market; as alſo from the ſmall ſums they had advanced: this operation was over before the end of January 1762. The ſmallneſs of the ſum advanced, upon which the profit was made, and the miniſterial intereſt which was neceſſary to obtain a ſhare in thoſe ſubſcriptions, rendered it extremely

tremely difficult for people in Scotland to ſhare in the profit by remitting large ſums in the proper point of time.

Farther, might not the banks, in the ſhort period during which ſuch large profits were made, had they had the exchange in their hands, have raiſed it ſo high as to fruſtrate the attempts of our Scots gameſters? If it be ſaid, that exchangers would have diſappointed them, by giving it lower; I anſwer in the negative: becauſe with this ſet of men exchange will riſe, of itſelf, in proportion to the value of money *in the place to which people incline to remit it.* And could money at any time bring in, at London, 20 *per cent.* intereſt, exchange upon that place would riſe univerſally in proportion.

The only motive, not already mentioned, for ſending money to London at this time, under ſo great diſadvantages, was the proſpect of a great riſe upon the ſtocks, in the event of a peace. Upon which I obſerve, that the value of that probability was included in the then price of ſtock; and had the probability of a peace, in January 1762, been great, ſtocks would have riſen in proportion: he, therefore, who veſted his money in ſtock, by remitting from Scotland at that time, upon an expectation peculiar to himſelf, I conſider as a gameſter, and as an ignorant gameſter too; becauſe he was giving odds upon an equal bett. This every man does, who, without any proſpect of a profit peculiar to himſelf, pays a high exchange to bring money to a market, where he buys at the

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ſame price with thoſe who pay no exchange at all.

From theſe conſiderations, I am led to differ from the ingenious author of the letter to J. F. Eſq; who ſays, "That in the preſent caſe" (the circumſtances operating in January 1762,) "the "demand" (for money to remit to London) "is unlimited, and no proviſion the banks can "make can be of uſe; on the contrary, could "they find a treaſure, ſuppoſe of a million, it "would only ſerve to increaſe it; becauſe this "demand ariſes on a profit on carrying money to "London as a commodity, and not as the balance "of trade."

CHAP. XIV.

Of optional Clauſes contained in Bank Notes.

AS we are examining the principles upon which banks of circulation upon mortgage, which iſſue notes payable in coin, are eſtabliſhed in Scotland, it is proper to take notice of every circumſtance which may ariſe from the extenſive combination of the intereſts of trade and circulation, eſpecially when we find ſuch circumſtances influencing the political welfare of ſociety.

An optional clauſe in a bank note is added to prevent a ſudden run upon banks, at a time when more coin may be demanded of them than they are in a capacity to pay.

Banks

Banks not regulated by ſtatute, are private conventions, in which the parties may include what conditions they think fit. Banks, therefore, may inſert in their notes, the conditions they judge moſt for their own advantage. Thus, they may either promiſe peremptory payment in coin upon demand, or they may put in an alternative, that in caſe they do not chooſe to pay in coin, they may pay in bills, or in transfer of their ſtock, or in other circulating paper not their own; or they may ſtipulate payment at a certain time after the demand, with intereſt during the delay. All theſe alternatives are inſerted, in order to avoid the inconvenience of running ſhort of coin, and of being obliged to ſtop payment altogether.

We have ſaid above, that the profits of banks conſiſt in their enjoying the ſame intereſt for the notes they lend, as if the loan had been made in gold or ſilver. This is a very great object, no doubt; but the policy of nations has eſtabliſhed it, and therefore we ſhall ſuppoſe it to be an incontroverted principle.

In which ever way, therefore, an optional clauſe is inſerted, it ſhould be ſuch as to cut off all profit from the bank, upon all paper preſented for payment, from the time of preſentation; and every artifice uſed to ſuſpend the liquidation of the paper, to the advantage of the bank, and prejudice of the bearer, ſhould be conſidered as unfair dealing in the bank, and prohibited by law.

When the optional clauſe has no tendency to procure an advantage to the bank, in prejudice of the holder of the paper (except as far as the holder

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is thereby deprived of the uſe of the coin, which on certain occaſions cannot be ſupplied by the paper), it becomes the duty of a ſtateſman to examine how far it is expedient to ſuffer ſuch ſtipulations to be inſerted in a money, which is calculated to carry on the mercantile intereſt of the nation.

Banks, we have ſaid, are the ſervants of the public, and they are well paid for their ſervices. Although the notes iſſued by them are not commonly made a legal tender in payment; yet the conſequence of a well eſtabliſhed bank, is to render them ſo eſſential to circulation, that what is not a legal obligation becomes one, *in fact*, from the force of cuſtom.

Let us therefore examine the advantages which reſult to banks from this optional clauſe, and the loſs which reſults to a nation from their uſing it, and then compare the advantages with the inconveniences, in order to determine whether it be expedient to permit ſuch obſtructions in the circulation of paper.

The advantage which banks reap is confined to that of gaining time, at the expence of paying intereſt. The intereſt paid by them is an aukward operation. They receive intereſt for the note; becauſe they have in their poſſeſſion the original ſecurity given for the notes when they were firſt iſſued; and they begin to refund this intereſt to the holder of the note from the time they avail themſelves of the optional clauſe. Could banks, therefore, borrow coin in a moment, at the ſame intereſt which they pay to the holder of the note, they

they would certainly never make uſe of this optional clauſe. But this coin can not be found in a moment; and the banks, to ſave themſelves the trouble, and the expence of augmenting their fund of coin, or of procuring a fund in another country, upon which they might draw for the payment of that national balance, which, by becoming banks, they tacitly engage to pay for the nation; render the credit of individuals precarious with ſtrangers, and raiſe a general diſtruſt in the whole ſociety which they ought to ſerve. Here then is a very great loſs reſulting to a nation from the eſtabliſhment of banks. Were no bank eſtabliſhed, no merchant would contract a debt to ſtrangers, without foreſeeing the ready means of diſcharging it with the coin circulating in the country. In proportion as this coin came to diminiſh, ſo would foreign contracts of debt diminiſh alſo. Thus *credit*, at leaſt, might be kept up, although trade might be circumſcribed, and manufactures be diſcouraged. Now when, in order to advance trade and encourage manufactures, a ſtateſman lends his hand towards the melting down of ſolid property, and countenances banks ſo far as to leave this operation to them, with the emolument of receiving intereſt for all their paper; and when, in order to facilitate the circulation of this paper, the very inhabitants concur in throwing all their ſpecie into a bank, is it reaſonable to indulge banks ſo far as to allow them to add an optional clauſe, which diſappoints the whole ſcheme, which ſtops trade, ruins manufactures, raiſes the intereſt of money, and renders the operation of melting down property quite

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quite ineffectual for the purpoſes which it was intended to anſwer. Farther:

The loſs a bank may be at, in providing coin, is ſuſceptible of eſtimation, let it be brought from ever ſo diſtant a country; becauſe we know that the quantity to be provided never can exceed the value of the *grand balance*. But who can eſtimate the loſs a nation ſuſtains, when an interruption is put to the carrying on of trade and manufactures? When the induſtrious claſſes of inhabitants are forced to be idle for a ſhort time, the conſequences are hardly to be repaired: they ſtarve, they deſert; the ſpirit of induſtry is extinguiſhed: in ſhort, all goes to ruin.

Beſides, when banks do not lay down a well digeſted plan for paying regularly, and without complaining, this *grand balance* due to ſtrangers, they are forced to have recourſe to expedients for preſerving their credit, more burdenſome, perhaps, than what is required of them; and not near ſo effectual for removing the inconveniences complained of.

The expedients they fall upon to obtain credit, coin, and bills, are ſo various, and ſo complicated, that bankers alone are able to explain them.

Sometimes we ſee them entering into contracts with private merchants and exchangers, *(living among themſelves!)* who engage for a certain premium to furniſh coin as it is demanded. The conſequence of this is, to expoſe the bank to a new demand for coin, from the very contractors, in order

order to fulfil their engagements; an abuſe we have taken notice of above in ſpeaking of the *bank circulation* of England.

Let us ſuppoſe that theſe undertakers for coin do really ſet out by doing *in part* what banks ſhould *effectually* do themſelves, that is, by bringing from another nation the coin which they are to ſupply. What is the conſequence? The banks pay the undertaker for this coin in their own notes. Did they only engage to pay a certain intereſt for the coin ſo provided, then the end would be accompliſhed, with the additional expence to them of paying the undertaker for his expence, trouble, and profit. But if they, inſtead of paying intereſt for the coin ſo furniſhed, ſhall iſſue their notes for the full value of it, ſuch notes can never enter into domeſtic circulation, ſo as to be kept up in it; becauſe it is not domeſtic circulation which has demanded them: they muſt then return upon the bank, either from the very hand who received them, or at leaſt, after a ſhort circulation; and thus draw out again the whole coin furniſhed by the undertaker. This produces a prodigious circulation of coin, and induces people to imagine that either the *grand balance* is inexhauſtible, or that the premium upon money at London is very high, or that people can contrive a fictitious balance, as a means of profiting upon coin, after the balance has been actually paid*.

* The directors of the bank of England have had recourſe to a like expedient with as little ſucceſs. They uſed, during the war, to buy up, with their paper, the coin brought in by privateers; and after they had been at this trouble, the notes they had given for it returned upon them, and drew it out again.

This

This method of providing coin is abſolutely deluſive, and opens a door to infinite abuſe. Thoſe who furniſh the coin to the bank, are either in a concert againſt the bank, and draw it out as faſt as they throw it in; or they are not in a concert: if they be in a concert, they profit by it; if they be not, they are hurt by their contract, and other exchangers draw the advantage; but the bank is equally a loſer in both caſes.

Let me ſuppoſe that they are in no concert, and that they honeſtly procure the coin at their own expence. If the bank pay them notes for the coin they furniſh, we muſt ſuppoſe that the coin they have procured, is not in conſequence of a loan, but of a *credit* given them in the place from which the coin is ſent: for I never can ſuppoſe that any merchant will borrow coin upon a *loan*, and lie out of ſo large a capital while he has bank notes in his hand to pay what he has received. If he have procured this coin upon *credit*, will not this credit when it comes to be replaced, augment the grand balance againſt the nation in favour of the country or city which granted that credit? And muſt not that balance be paid by exchangers out of the coin received by the bank? If, therefore, we ſuppoſe that the undertaker does not draw out the very coin he had juſt delivered into the bank, will not exchangers do it for him; will not they be ready with notes, as ſoon as the coin is lodged in the bank, to draw it out, and ſend it off, in order to furniſh the undertaker with bills to fill up his credit, for the coin he had received from people reſiding in the place to which the exchangers have ſent coin,

to

to be ready to anſwer their draughts? Does this differ in the leaſt from what is called drawing and redrawing, which is ſufficient to ruin any man, and muſt not a like practice ruin a bank, by raiſing exchange to a monſtrous height?

This being the caſe, the ſhorteſt and the beſt method for preventing ſuch abuſes, is to oblige banks to pay upon demand, in coin or bills, at the option of the holder of the note. This will force them into the method for providing them; to wit, fairly to borrow money from nations to whom we owe, and to pay a regular intereſt for it, without an obligation to refund the capital, until the grand balance ſhall take a favourable turn; in which caſe, the banks will regorge with coin drawn from ſtrangers; and theſe ſtrangers will then find as great an intereſt in being repaid, as the bank found in borrowing from *them*, while the balance was in *their* favour.

We have ſaid, that a ſtateſman ſhould oblige all public banks to pay regularly upon demand, in coin or bills, at the option of the holder of the note. But then he muſt facilitate to them the means which he has in his power for providing themſelves with the coin, or bills demanded.

For this purpoſe, he muſt, firſt, provide them with a mint; for how, without a mint, can a bank convert into coin the metals it may provide from other countries? Next, he muſt put that mint under ſuch regulations as to cut off all profit from money-jobbers, who will be ready to draw the coin out of the bank the moment they find the leaſt advantage in tampering with it. In order to prevent this

this abuſe, a reaſonable rate of coinage ſhould be impoſed, according to the principles laid down in the third book; and when banks have occaſion to pay a balance out of the nation's coin, a drawback for *part* of the coinage ſhould be given them. This drawback will ſupport the value of the coin, and the loſs of the remainder of the coinage will engage them to export bullion preferably to coin, when it is to be found: and if no drawback were given, the coinage would be totally loſt to the bank.

When this deduction is given, the coin muſt be melted down, and ſtamped in bars at the mint; both in order to prevent frauds in the drawbacks, and to diſappoint ſtrangers who receive it at the price of bullion, from gaining the price of coinage when they return it back. And in the laſt place, all light coin ſhould be baniſhed from circulation, and made to paſs by weight, for bullion at the current price of the market. All banks ſhould both receive and deliver coin by weight, when the ſums are ſo conſiderable as to require full bags of coin to pay them. It is not here neceſſary to repeat what has been ſaid upon this ſubject ſo much at length in another place.

The method of facilitating to banks the means of providing bills for the payment of foreign balances, is, ſecondly, to aſſiſt them in procuring loans beyond the diſtrict of their own circulation. If government ſhall be ſatisfied that the intention of demanding ſuch loans, is to enable the bank to interpoſe their credit in favour of the trade and induſtry of thoſe who circulate their paper, and who have no way of paying ſuch balances, but with their

their ſolid property; in this caſe, government will undoubtedly, aſſiſt the bank in obtaining loans for ſo national a purpoſe, by declaring the ſecurity, upon which they deſire the loan, to be good, and by becoming anſwerable to the public for the ſolidity of it.

CHAP. XV.

Of ſubaltern Banks of Circulation, and of their Competition with one another.

WE have hitherto treated of the principles which influence national banks of circulation, we now come to examine ſome peculiarities attending banks of a ſubaltern nature, which for the moſt part truſt to the national bank for all ſupplies of coin; and when this reſource fails them, they are thereby involved in difficulties which are not eaſily got the better of. Beſides this inconvenience, to which all ſubaltern banks are ſubject, they are frequently expoſed to competition with one another.

A national bank enjoys ſuch great advantages from the ſtability of its credit, and the regularity of its operations, that it is not eaſy for any other private company to eſtabliſh themſelves upon the ſame ſolid ſyſtem.

When any banking company is eſtabliſhed, which draws its ſupport from a national bank, the facility of carrying on the buſineſs by ſo great an aſſiſtance, naturally engages other companies to imitate

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imitate their example. From thence ariſes a competition. All ſuch banks begin to conſider the circulation of their own diſtrict as their undoubted property, and they look with an eye of jealouſy upon every note which does not carry their own mark.

The great point of their ambition is to gain credit with the national bank; and could they prevail with that company to receive their notes, or to give them credit for their draughts, in caſes of neceſſity, they would be at their eaſe; becauſe the national bank would then be at the whole expence of providing coin and bills, and they would have nothing to think of, but to extend the ſphere of their own circulation.

With reſpect to all theſe ſubaltern ſocieties, the national bank will no doubt ſteer an equal courſe. I ſuppoſe every one of them to be ſettled upon good ſecurity; without which they do not deſerve the name of banks.

In proportion to their ſtocks, and according to the ſtate of the national balance, they may, as well as any private perſon, on many occaſions, draw conſiderable ſupplies of coin from the national bank, without lying under any obligation to it; becauſe when exchange is low, they can realize any part of their ſtock into coin, out of the national bank, at very little loſs, excepting the intereſt of it: for intereſt muſt always be reckoned upon every guinea which lies in their cheſt.

Did theſe banks conſider one another in a proper light, they muſt ſee in an inſtant that the ſolidity of

of every one is equally good; becauſe I now ſuppoſe them all ſtanding upon the principles of private, not mercantile, credit, as above explained.

What benefit then can they poſſibly reap from their mutual jealouſies, from gathering up each other's notes, and coming with a run upon one another from time to time? The conſequences of this will be, to oblige themſelves and others to preſerve for *domeſtic circulation*, a larger quantity of coin than is neceſſary, and thereby to diminiſh their own profit: to take up their attention in providing againſt their own reciprocal attacks, and thereby neglect the providing a ſupply for that demand which is indiſpenſable; to wit, the payment of the grand balance due to other nations; at which time the reſource of the national bank will certainly fail them. The managers of every one of them will pretend that it is they who are ſaddled with this burden; but the nature of the thing will ſpeak for itſelf.

Wherever this grand balance is tranſacted, the exchangers of every city will have recourſe to the bank there eſtabliſhed; and if there be more than one, that bank which pays with the greateſt readineſs will have the beſt credit, the moſt notes in circulation, and the largeſt profits upon the whole. If any one be found ſlow, or backward in paying its paper, exchangers will be the more punctual in making their demand for payment, and they will even be averſe to receiving ſuch notes from their correſpondents.

Every man who has occaſion for credit from a bank, will apply to that whoſe notes are the moſt

eſteemed. In ſhort, there will be profit in the main, to the bank which pays the beſt, although I allow that at particular times there may be ſome additional inconveniences, unleſs a regular plan be laid down on the principles above deduced.

This however is a vague reaſoning; becauſe the matter of fact is not known. All that can be ſaid with certainty, is, that while no public regulation is made with regard to banking, every one will carry on the trade according to his views of profit; and private animoſities between different companies, will tend only to diſtreſs the nation and themſelves, as experience has, I believe, diſcovered.

If, as matters ſtand, a very great inconvenience reſult to Scotland from the want of a communication of paper credit with England, and if thereby an exchange of 4 and even 5 *per cent.* have been paid for bills upon London, becauſe all the coin in Scotland is locked up in banks; I aſk what would be the conſequence, if banks had their will in baniſhing from the circulation of their own diſtrict, every other notes but their own? In this caſe, we might, in a ſhort time, find an exchange of 4 and 5 *per cent.* between Fife and Lothian, between Glaſgow and Ayr, and ſo of the reſt. What would then become of manufacturers, who could not diſpoſe of their work at the diſtance of a few miles, without having recourſe to exchangers for their payment? If ſuch an abuſe were once allowed to creep in, there would be no other remedy but to deſtroy banks altogether, and throw the little coin there is into circulation.

On

On the other hand, when banks are in a good underſtanding, when they are eſtabliſhed on ſolid principles, when their paper is iſſued on proper ſecurity, the public is ſafe; and in every little diſtrict, under the wings of their own bank, there will ariſe a ſet of exchangers, who will give credit to merchants and manufacturers, and who will have recourſe to their own bank for the coin or bills neceſſary for their occaſions. This will naturally divide the payment of the grand balance among them, in a due proportion to their circulation.

I ſhall now conſider the principles which may direct a ſtateſman to ſettle banking upon mortgage on ſuch a footing, as to ſerve every national purpoſe.

CHAP. XVI.

Of ſome Regulations proper to be made with regard to national Banks.

FROM what has been ſaid, we may conclude, that were a national bank upon mortgage, eſtabliſhed on a plan calculated to anſwer the purpoſes of the moſt extenſive domeſtic circulation, it might be regulated in the following manner.

Firſt, Let a large ſtock of property, of one ſpecies or other, be provided, in order to gain the confidence of the public, and let it be pledged for the payment of all the notes.

Secondly, Let all ſolid property intended to be melted down into paper money, be firſt conſtituted

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in ſuch a manner as to be eaſily ſold, and in the mean time ſecured to the company, for their advance, preferably to every other perſon, and let it be of a revenue fully ſufficient to acquit the intereſt for ever.

Thirdly, The capitals due to the bank muſt not be demandable by the bank, as long as the intereſt is regularly paid.

Fourthly, Every one who conſtitutes his property according to the regulations, muſt be entitled to a proportional credit from them.

Fifthly, All bank ſecurities muſt be pledged in the hands of government for the intereſt of whatever money the bank may borrow with their conſent, beyond the diſtrict of their own circulation.

Sixthly, Government muſt ſupport the bank in proportion to the extent of their funds.

Seventhly, Bank notes muſt be payable to bearer, either in coin, or in inland bills to the value, or in a transfer of a correſponding intereſt at — *per cent.* all in the option of the holders.

Were ſuch regulations eſtabliſhed, the borrowing from banks would become very eaſy; any man who is maſter of his property, though incumbered with debts, might put it into bank regulation, and receive from the bank the money neceſſary for paying off all his debts; he might even give credit upon it to thoſe who otherwiſe are not in a ſituation to obtain it: for which credit given, a profit in the rate of intereſt might be allowed to him. Were a plan concerted conſiſtently with the principles which have ſuggeſted this general ſketch, all borrowing and lending

lending of money would ſoon center in the bank. Securities would be eaſy, and expence greatly avoided.

A national bank, when rightly conſtituted, may however be ſafely indulged in more extenſive methods for circulating their paper than merely upon land ſecurity. The bank of England is allowed by charter to iſſue notes for diſcounting bills of exchange, it may trade in gold and ſilver, and may advance money to government upon the ſecurity of taxes impoſed and levied within the year. But it is in general debarred from commerce, and every precarious object of traffic. The reaſon is plain. The paper it iſſues becomes the property of the nation, and may form in a ſhort time the greateſt part of the currency of it. In ſuch a caſe, were the bank expoſed to loſſes by trade, or by the inſolvency of debtors for great ſums, the whole credit of the nation might be ruined, and all the lower claſſes of the manufacturing inhabitants undone, before ſuch a blow could be repaired.

Under proper regulations, bank paper might be made a legal tender in every payment: in which caſe it is hardly poſſible that any conſiderable demand for coin ſhould ever be made upon them, except for the payment of the *grand balance*.

This national bank ought to have different offices, in different cities within the kingdom, and theſe would make ſubaltern banks both uſeleſs and unprofitable. It might even be ſtipulated, that a certain proportion of bank ſtock, placed in the name or for the behoof of any city, ſhould entitle that city to a proportional part of the adminiſtration

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within their own diſtrict. As theſe are merely *ſpeculations*, not *plans*, I need not ſet about removing objections, which muſt conſtantly be many and well grounded, whenever any new eſtabliſhment or innovation is propoſed. All I aim at is to ſet this principle in a clear light, to wit, that it is the intereſt of every trading ſtate to have a ſufficient quantity of paper money, well ſecured, circulating through it, ſo as to facilitate payments every where, in order to cut off inland exchanges, which are a great clog upon trade, and which are attended with the riſk of receiving the paper of people whoſe credit is but doubtful.

For this purpoſe, I have propoſed that inland bills ſhould be demandable from the bank at par, as well as ſpecie.

It would be an admirable improvement upon this ſcheme, to make a like regulation as to foreign bills. However, this ſpeculation is reſerved for another place. All I ſhall ſay, at preſent, upon this head, is, that as we have ſeen how the whole national balance muſt be paid by banks (who circulate paper payable in coin on demand, and who conſequently muſt, on ſome occaſions, draw the metals from abroad for that purpoſe, in order to fill up the void made by exchangers, who ſend them out), it would, I think, be ſhortening, in ſome meaſure, this operation, and be the means, at the ſame time, of indemnifying the bank in this reſpect, to regulate matters ſo, that all foreign exchanges might be tranſacted there at fixed rates, according to the place where the exchange is to be made, without erecting any monopoly for this

purpoſe in favour of the bank, or depriving any one of the liberty to deal in exchange, who can afford it at more reaſonable terms than the bank; but of this more when we come to the doctrine of exchange.

CHAP. XVII.

When and in what caſe Banks ſhould be obliged to keep open Books.

IF no national bank be eſtabliſhed under proper regulations, and if entire liberty be allowed to every one to take up the trade of banking, who can iſſue his notes, I think it is againſt all principles of good policy not to oblige ſuch banks to keep books open, to be inſpected regularly by ſome authority or other; in order to ſee upon what ſecurity that paper ſtands, which is the inſtrument of commerce, and a part of every man's private property. This policy is the more neceſſary, becauſe were any one bank to break, either through the knavery, miſconduct, or misfortune, of a particular company, this would caſt a general diſcredit upon all paper money, and be the means of bringing on thoſe calamities which we have ſo often mentioned.

I know the ordinary objection againſt this propoſal is, the inconvenience of throwing open the ſecrets and myſteries of trade. As to the myſteries of trade, this point ſhall be examined in another place. But here, I ſay, there is no queſtion of a trade in which any riſk ought to be implied: and if

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any one can ſuppoſe, that, at any time, the affairs of a bank are in ſo tickliſh a ſituation as not to bear inſpection, this very ſuppoſition ſhews how neceſſary it is not to permit ſuch a bank to continue its circulation. The only inſpection, in which the public is intereſted, is to know the quantity of notes which are iſſued, and the extent and nature of the ſecurities pledged for them. They have no buſineſs to examine the ſtate of the bank caſh, or of particular people's credit. The bank may be without a ſhilling in its coffers, and ſtill its paper be as good as if it had a million. Such an inſpection, as I propoſe, would rather confirm than ſhake its credit, but it would be the means of preventing it from launching out into ſpeculations in matters of commerce, which is not its diſtrict; and from gaming with national property.

If it be ſaid, that this inſpection would lay open the affairs of many private men, debtors to the bank, I anſwer in the negative; becauſe no man's credit is hurt by his having a caſh account, and no inſpection is requiſite, as to the ſtate of ſuch an accompt with the bank. The credit may be either quite full, or quite exhauſted; this particular intereſts no body but the parties themſelves; but it is eſſential to know upon what ſecurity the credit itſelf has been given; becauſe every man who has a note of ſuch a bank in his poſſeſſion, has a very good title to be informed concerning the ſecurity on which it ſtands.

It is not ſufficient to ſay, that the holder of the note, if he doubts of the ſecurity, may demand payment of it: Becauſe it is not here the intereſt of any individual,

individual, but that of the public which we are attending to: and, if, according to the principles of common reaſon, it be juſt, that a creditor ſhould have it in his power to watch over the abilities of his debtor, ſo as to ſecure his payment; certainly it is equally juſt, that the public (which I conſider here as the creditor) ſhould be made certain, that what is circulating with as great facility as the King's coin, does contain a real value in it. Would it be a good anſwer from any man who held a piece of falſe money in his hand, for the uſe of circulation, to ſkreen himſelf, by alleging that if it be falſe, nobody need to take it. It is the right of every man to detect falſe coin; but it is the right of government *only* to detect doubtful paper: becauſe law only can authoriſe ſuch an inquiſition. Does not the charter of the bank of England eſtabliſh this right in government? If the bank be confined to certain particular branches of ſolid trade, where little riſk is incurred, may not government examine, when neceſſary, whether theſe regulations have been obſerved; and how can this be done without ſuch an inſpection as is here recommended?

CHAP.

CHAP. XVIII.

Is it the Intereſt of Banks to grant Credits and Caſh Accompts to Exchangers and others, who make a Trade of ſending Coin out of the Country?

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THE anſwer to this queſtion is very ſhort. From the principles we have deduced, it is plain, that it is both the office and intereſt of banks to give credit to all who can give good ſecurity for it.

The cauſe of doubt upon this queſtion, ariſes merely from certain inconveniences which have been of late experienced in Scotland; but which never would have been felt, had banks attended to their true intereſt, in providing funds to anſwer the demands of thoſe who are either obliged, or who find an intereſt in paying off what the nation owes upon the grand balance to foreigners.

To ſet this matter in a clear light, let me ſuppoſe that, ſome time ago, the banks had at once withdrawn all the credits granted to exchangers; and opened a ſubſcription for a loan of money, equal to what they might eſtimate the ſum lent to this ſet of men within the country, for the ſake of carrying on their buſineſs.

According to principles, theſe two operations ſhould go hand in hand: the recalling the credits would, no doubt, have greatly diſtreſſed exchangers; but as long as they could find money to borrow from private hands, this inconvenience would have

have been leſſened. Beſides, I apprehend that the late cuſtom among exchangers, of borrowing at 4 *per cent.* owes its exiſtence to the difficulty they felt in obtaining extenſive credits from the bank; and if this be the caſe, then there has been a *lucrum ceſſans* to the bank of 5 *per cent.* upon the amount of all theſe borrowings; becauſe exchangers, I apprehend, would prefer a credit from the bank at 5 *per cent.* to a loan at 4 *per cent.* payable on demand, according to the occaſions of thoſe who keep their money with them.

The moſt effectual method, therefore, to hurt exchangers, would have been to have recalled all their credits, and offered to borrow, upon the ſame terms, what was lent to them.

The execution of ſuch a plan would, I think, have been, firſt, diametrically oppoſite to the intereſt of the banks; ſecondly, would have occaſioned ſuch a run upon exchangers, as to throw them into great diſtreſs; and thirdly, would have ended in the total ruin of the trade of Scotland.

That ſuch a plan is diametrically oppoſite to all principles of banking, I ſuppoſe, is by this time ſufficiently underſtood.

That it would have occaſioned a run upon exchangers, is pretty certain: becauſe however good their credit might be, it muſt be acknowledged to be inferior to that of the banks: and therefore no body would prefer them for debtors, to the bank, upon the ſame terms.

The third conſequence is as evident, upon a ſhort reflection, as the other two. The run upon the exchangers would have obliged them to make a call

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a call upon all the merchants and dealers in Scotland, to whom they gave credit: for which purpoſe, and for which alone, they find an intereſt in borrowing at ſo high an intereſt as 4 *per cent.*

The call, then, made by the exchangers upon their debtors, is neither more or leſs than a call upon the money employed in the trade of Scotland.

Now we have ſaid, that whoever owes *muſt pay*. The merchants of Scotland owe to exchangers; the latter are preſſed by their creditors, and *muſt pay* with what they have, which conſiſts in money only: when this is exhauſted, they muſt ſhut up ſhop. *They* again call upon the merchants, who *muſt pay* with what they have. This conſiſts in goods, and in the manufactures of Scotland; and theſe they *muſt* ſell at any price. There may not be time ſufficient to export with advantage. To whom then muſt they ſell? To people within the country, who have no money to buy with; becauſe credit is withheld by that body which only can give it. I conclude with the old ſaying of the law,

Unum quodque eodem modo ſolvitur quo colligatum eſt.

The beſt method to eſtabliſh credit in an induſtrious nation, is a bank properly regulated: and the beſt methods to ruin it effectually, when eſtabliſhed, are the inconſiſtent operations of ſuch a bank.

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CHAP. XIX.

Application of the Principles above deduced, towards forming the Policy of Circulation.

CHAP. XIX.

FROM the principles above deduced, there ariſe three principal objects of attention.

The firſt, the circulation of paper for domeſtic uſes.

The ſecond, the method of providing coin for this purpoſe.

The third, the method of paying foreign balances.

Theſe three objects are abſolutely different in their nature, and they are influenced by different principles. The conſequence of blending them together, is to render the ſubject, which is abundantly intricate in its own nature, ſtill more dark and perplexed. What is to follow has no relation to any plan propoſed for execution; it is merely intended as a farther illuſtration of the general principles which influence this branch of my ſubject.

Firſt, As to the circulation of paper for domeſtic uſe.

It has been ſaid, that the great utility of banks of circulation upon mortgage, was to facilitate the melting down of ſolid property; in order to enable every one who has property, to circulate *the capital* of it for the advancement of induſtry.

For

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For this purpoſe he comes to a bank, pledges the capital he wants to melt down, and receives for his obligation, bearing intereſt, paper money which bears none.

This paper money, I ſuppoſe to be as ſolidly ſecured as the principles of private credit can make it. I ſuppoſe the bank to be eſtabliſhed by authority, according to the regulations already mentioned, and the notes made a legal tender in every payment of *domeſtic debts;* by which term I underſtand *debts* payable within the country.

From theſe data, I ſay, that the regular method by which the bank ſhould acquit the obligation in the notes, is by reſtoring the ſecurity granted at iſſuing the notes, if they be returned by the debtor in it; or by a transfer of a ſum of intereſt equivalent to the notes, if they be preſented by any other. All farther obligations laid upon banks, particularly that to pay in coin or inland bills, is merely an equivalent expected from them in lieu of their great profits*.

When

* It muſt here be obſerved, that in every country where there is a national coin eſtabliſhed, it is abſolutely neceſſary to connect with it the denominations of the paper money; in order to affix a determinate value to theſe denominations. This may eaſily be done without implying, as at preſent, an obligation on the bank to realize into coin every bit of paper in circulation.

The *intereſt*, therefore, of the credits given by the bank, may be demandable from the debtors in coin; and the transfers of intereſt made by the bank, to thoſe who bring in notes for payment, may alſo be demandable in coin from the bank.

Theſe payments will bear a ſmall proportion to the paper in circulation, becauſe intereſt will be very low; and coming at fixed terms of payment, proviſion will eaſily be made for them.

This

When paper iſſued for domeſtic circulation returns to a bank, were it not for the profits on their trade, I ſee no reaſon why a bank ſhould pay in any other ſpecies of property than what it received; and if, by the intereſt they receive for their notes, they be abundantly indemnified for all the difference between paying in coin and in transfer, I think the public would be a gainer to diſpenſe with this obligation in lieu of an abatement of intereſt; which would be an advantage to commerce, not to be counterbalanced by the other.

Farther, the buſineſs of providing coin is totally different from that of ſupporting domeſtic circulation: it is founded on different principles: it requires men of a particular genius to conduct it: the difficulties to be met with are not conſtant; and therefore cannot form a regular branch of bank adminiſtration.

Secondly, The method of providing coin for domeſtic circulation is the buſineſs of mints, not of banks.

I have, in the third book, treated very fully of the doctrine of coin, and of mints. I have ſhewn the difference between money, which *is the ſcale for reckoning value*, and coin, which *is certain denominations of money, realized in a proportional weight of the precious metals*. I have ſhewn how neceſſary a thing it is to impoſe the price of coinage upon the

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This regulation will render the coin of the country leſs neceſſary for circulation; and as the *intereſt* of all the paper will be demandable in coin, the intrinſic value of the *intereſt* will effectually ſupport the value of the *capital*.

metals

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metals manufactured into coin: and I have ſaid that it is inconſiſtent with all principles, to allege that the metals, when coined, ſhould thereby acquire no additional value.

The expence, therefore, of providing the metals ſhould be thrown upon thoſe who want coin; and the mint ſhould be obliged to convert gold and ſilver into coin, upon the demander's paying the coinage.

This coin loaded with the price of coinage, never will be ſent abroad to pay a foreign balance; never will be locked up in banks, which will have little occaſion for it. It will, therefore, remain in circulation, and ſerve thoſe purpoſes for which the inhabitants think fit to employ it.

This coin, I ſay, never will be exported, as long as any uncoined metals can be found in the country: and if upon a national diſtreſs it be thought fit to facilitate the exportation of it, the ſtate may (as we obſerved above) appoint the mint to receive it back, in order to melt it down into ingots, ſtamped with the mark of ſterling, repaying to the bearer — *per cent.* of the coinage.

Thirdly, The trade of paying off foreign balances will then become a particular branch of buſineſs: of which we ſhall treat more at large, when we come to examine the principles of exchange.

All that is neceſſary to be ſaid in this place, is to recal the principle we have mentioned above, viz. that when a nation cannot pay in her metals, manufactures, and natural produce, what ſhe owes to ſtrangers, ſhe muſt pay in her ſolid property, that is, ſhe muſt mortgage the revenue of ſuch property, for

for a capital *borrowed out of the country*, which capital ſhe muſt employ for the payment of her foreign debts.

This operation then ſhould be performed by a regular and ſyſtematic plan.

CHAP. XX.

Objections to this Doctrine.

THAT bank notes can never be received as ſpecie, but from a perſuaſion that they may be exchanged for it on demand.

To this I anſwer, that it is ſufficient they be received as value; and that they anſwer every purpoſe in carrying on alienation. The uſe of *paper money* is to keep the reckoning between parties, who are *ſolvendo*; the uſe of ſpecie or coin is to avoid the inconvenience of giving credit to perſons who perhaps may not be ſo.

When merchants make delivery on accompt, they then give credit to their cuſtomers: when they ſell for bank bills, they give credit to the bank: when they are paid in coin, they give credit to nobody; becauſe they receive the real value in the coin. Where then is the difference between receiving the real value, and receiving an obligation for it, concerning the validity of which every one in the country is perfectly ſatisfied?

Is there a merchant, in any country in the world, who will ſell one farthing upon an hundred pounds cheaper to a perſon who pays in coin, than to another

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ther who pays in good paper; unleſs the extrinſic circumſtances of the country ſhould, at that time, give an advanced price to the *metal* of which the coin is made.

Money, we have ſaid, ought to be invariable in its value: coin never can be ſo, becauſe it is both *money* and *merchandize*: money, with reſpect to the denomination it carries by law; merchandize, with reſpect to the metal it is made of.

But it is urged, that if I have coin I may pay any where within the commercial world, at the expence of tranſportation, and inſurance. I grant this to be true.

But I anſwer, that the principal uſe of coin, is, not to ſend it out of the country; but to keep accompts clear among inhabitants within the country. If there be a variation in the value of coin, according to circumſtances, this variation muſt affect the inhabitants in their tranſactions. No one can gain upon this coin, without ſuppoſing a relative loſs to ſome other, whether they perceive it or not. Muſt not this diſturb all reckoning? Muſt it not diſturb prices? Since at different times, I may be paying the ſame denominations of coin for the ſame commodity; and yet be paying, really, more value at one time than at another, Is not then the moſt invariable money the beſt calculated for the intereſt of trade, and proſperity of manufactures? Whence ariſe complaints againſt paper money, and regrets for want of coin? They iſſue from thoſe who both wiſh to profit of the riſing value of the metal contained in the coin, and who endeavour to perſuade

de the public, that its intereſt, and not their
is their object.

iat a trifle is a foreign balance, let it be ever
at, compared with the whole alienations of a
y! Is it reaſonable to diſturb the harmony
domeſtic dealings, in order to furniſh an op-
iity to a few clear-ſighted people, who can,
ſome occaſions, profit of the fluctuating va-
the ſubſtance of which the coin is compoſed,
prejudice of the ignorant? If the country
balance to other nations, let it be paid: no-
ſo juſt; nothing ſo eſſential to the intereſt of
untry which is the debtor. If the precious
be the moſt proper vehicles, as I may ſay,
nveying this value, let them be procured and
; but never let us ſay, that becauſe *ſome* of
oney *may* be made of theſe metals, that all
oney ſhould be made of them; in order that
who tranſact the balance may have an oppor-
of ſending our metals away with greater eaſe,
iereby of depriving us of the means of carry-
alienations among ourſelves. Let every one
as coin ſend it away: nothing can be more
nothing more conſiſtent with principles: but
n ſend it away as a *manufacture;* carrying in
om the price of making it, which he has paid,
or which his foreign creditors will make him
owance.

changers run to the coin of the nation, for pay-
with the leaſt expence to themſelves, the ba-
they are about to tranſact. When this re-
is cut off by the impoſition of coinage, the
will preſerve at leaſt her darling ſpecie; and

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then exchangers will be obliged, by the beſt of all compulſions, their own intereſt, to think of other expedients; bullion, manufactures, and natural produce. And when all theſe come to fail, a regular plan muſt be laid down, and authoriſed by government, for obtaining credit in other countries, by mortgaging the revenue of the ſolid property of the kingdom; according to the principles we ſhall diſcover when we come to treat of exchange.

CHAP. XXI.

How by a return of a favourable Balance the Bank may be enabled to pay off the Debts due to Foreigners, and thus deliver the Nation from that Burthen.

WE have ſaid, that the banks in contracting debts, and mortgaging the property of Scotland to ſtrangers, for the payment of a grand balance, really act as the guardians of the public, by interpoſing their credit, and by conſtituting themſelves as debtors for the whole; taking for their relief, proportional ſecurities upon the effects of individuals.

We have alſo pointed out how, by this operation, the maſs of bank ſecurities comes to be greatly augmented.

Before the payment of any balance for the behoof of Scotland be made, the ſecurities in the hands of the bank can be equal only to the notes in

in domeſtic circulation, and the accumulated profits thereon. Let this be called (A). In proportion as theſe notes come back upon the bank, in a demand for bills to pay balances, in the ſame proportion will there be a ſum of ſecurities added to the former maſs (granted upon new credits given for filling up the void thereby occaſioned to domeſtic circulation), which quantity I ſhall call (B).

(A) then repreſents the ſecurities equivalent to the notes in circulation.

(B) repreſents the ſecurities equivalent to the debts contracted by the bank in favour of ſtrangers.

Now let us ſuppoſe trade to become favourable; and to produce a balance in favour of Scotland: what will be the effect of this?

I ſay, that this balance will be paid to Scotland, either in coin, or in the metals, or in produce, or in manufactures, or in bills.

In every caſe, it muſt be ſuppoſed to be beyond the conſumption of Scotland; otherwiſe it will not be a balance in their favour. Whatever part of it, therefore, proves to be beyond the conſumption of Scotland, will be turned into money. This money muſt either conſiſt in the metals, or in foreign bills. If it conſiſt in the metals, it will, if coined, fill up, *pro tanto*, a part of circulation: this will make a proportional part of bank paper return upon the bank, and extinguiſh a proportional part of their ſecurities; which we have called (A). But then there will be more coin in circulation than formerly; conſequently, more coin will enter into payments made to the bank than formerly. But

we muſt ſuppoſe, that before this favourable turn of commerce, there was coin enough both in the bank and in the country for the uſes of domeſtic circulation; conſequently, the bank will ſend off this ſuperfluity of coin, and with it they will repay a part of the debt they formerly contracted.

Through all this chain of reaſoning, we muſt always ſuppoſe the money in circulation to be *a determinate ſum*; otherwiſe the ſuper-adding this foreign coin will not occaſion, as we have ſaid, a return of a proportional part of the bank paper.

In the next place, let us ſuppoſe this favourable balance to conſiſt in foreign bills, upon London, Amſterdam, &c. Theſe will be diſcounted by the bank, and notes iſſued for them. The bills will be ſent off by the bank, in order ſtill to extinguiſh a part of what is owing to foreigners. Theſe notes, again, being ſuperfluous to circulation, which we ſuppoſe to be full, will return upon the bank and ſtill diminiſh the maſs of (A).

By theſe operations we ſee how (A) will be conſtantly diminiſhing; but then in the ſome proportion we ſee how the maſs of foreign debts will alſo be diminiſhing: conſequently (B), which was engaged for them, will be returning to be the free property of the bank; and as we ſuppoſe no variation upon the ſum in circulation, we may conſider this as a ſort of converſion of (B) into (A), and when all (B) ſhall be thus converted into (A), then the debt formerly contracted by the bank, in favour of Scotland, will be totally paid off by the ſame method (only inverting the operations) by which it was contracted.

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CHAP. XXII.

Of the Bank of England and of the Banks of Circulation eſtabliſhed on Mercantile Credit.

CHAP. XXII.

I HAVE examined, with all the care I am capable of, the nature of banks calculated for the melting down of ſolid property, and the converting of it into paper for the uſe of circulation.

The nature of ſuch banks is but little known in countries where they have not been eſtabliſhed; therefore a diſtinct account of them may ſuggeſt hints, which in time may prove uſeful.

People who do not employ their thoughts on the theory of trade and credit, are apt to overlook objects of real utility; and thoſe who do, have ſeldom the opportunity of being informed of the cuſtoms of different nations. Were my experience greater, or had I more opportunities to dive into the receſſes of this great object, the work I now preſent to the public would better deſerve its attention.

I now proceed to a deduction of the principles upon which are founded thoſe banks which are chiefly calculated for the uſe of commerce; and as the ground-work of my inquiry, I ſhall trace ſome of the principal operations of the bank of England.

The eſtabliſhment of this great company was formed about the year 1694. Government at that time having great occaſion for money, a ſet of men

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was found who lent to it about 1,200,000*l.* ſterling, at 8 *per cent.* for the excluſive privilege of banking for 13 years: with this additional clauſe, that 4000*l.* ſterling, *per annum*, ſhould be given them to defray the expence of the undertaking. This ſum of 1,200,00 *l.* ſterling, was the original bank ſtock. It has been ſince increaſed to 11,000,000 *l.* by farther loans to government, for the prolongation of their privileges; as has been taken notice of in the 16th chapter of the ſecond part.

This ſtock, as in banks of circulation upon mortgage, is to be conſidered only as a ſubſidiary ſecurity to the public for the notes they iſſue: were it the principal and only ſecurity for their paper, this bank would then be founded on the principle of public, not of mercantile credit; under which laſt denomination we are going to point out in what the nature of it differs from thoſe we have already explained.

It is a rule with the bank of England to iſſue no notes upon mortgage, permanent loan, or perſonal ſecurity. The principal branches of their buſineſs may be comprehended under four articles, viz. 1. The circulation of the trade of London: 2. The exchequer buſineſs of Great Britain: 3. The paying of the intereſt of all the funds transferable at the bank: 4. Their trade in gold and ſilver. I ſhall now ſhortly explain the nature of theſe four great operations; and firſt as to the circulation of the trade of London.

When we ſpeak of the circulation of trade, we underſtand the circulation of money paid on the account of trade.

The great occupation of the London merchants engages them to ſimplify their buſineſs as much as poſſible. For this they commit to brokers every operation which requires no peculiar talents or ingenuity in the merchant himſelf; and, for a like reaſon, they commit to the bank and private bankers the care of their caſh.

A Scots merchant begins by drawing money from the bank, or from an exchanger, for which he pays intereſt: a London merchant begins by putting money into the bank, for which he draws no intereſt at all.

A London merchant, therefore, can give no order upon the bank, unleſs at a time when he has money lodged in it.

If he has occaſion for money at any time, he ſends to the bank the bills he has before they become due, and the bank diſcounts them at certain rates, according to their nature.

If it be a foreign bill, the bank, in diſcounting it, retains of the ſum, at the rate of 4 *per cent. per annum*, for the time the bill has to run; but if the bill be at a longer day than 60 days they will not diſcount it. So in this caſe the merchant muſt keep his bill until it is within 60 days of the term of payment.

The reaſon for this is evident: the ſecurity upon which ſuch bill ſtand, is purely mercantile. The nearer, therefore, the payment is, the leſs riſk the bank incurs from the failure of thoſe who are bound in it.

The intention of this operation of diſcounting bills, is plainly to employ the caſh of the bank in a way

way to draw an intereſt for it; but as merchants allow their money to lie dead for as ſhort a time as they poſſibly can, the bank muſt have quick returns for what they advance upon diſcount, in order to be conſtantly ready to anſwer all demands. This is no loſs to the bank, and a prodigious advantage to trade, as I ſhall briefly explain.

The bank is conſtantly receiving caſh from every perſon who keeps their caſh with it. This occaſions a conſtant fluctuation of payments, which of courſe muſt leave at all times a conſiderable ſum of other people's money in the bank; becauſe it never is in advance to any one.

By long practice in the trade, this ſum of money becomes determinate: let us call it the *average-money* in the hands of the bank. It is then with this average-money alone, that the bank can diſcount bills, Now if the trade of London do afford bills to be diſcounted at different dates within 60 days, ſufficient to abſorb the whole average-money of the bank, appropriated for diſcounting; this branch of buſineſs would not go forward with the celerity required for the trade of London, did the bank indulge merchants ſo far as to diſcount at a longer day.

From this we learn another reaſon why the bank of England diſcounts no bill which has more than 60 days to run. The firſt, mentioned already, is for the greater ſecurity of payment; and the ſecond, which we now diſcover, is in order to be able to diſcount more bills than otherwiſe they could do, did they diſcount at a longer day.

As

CHAP. XXII.

As I am here upon the ſubject of diſcounting bills of exchange by the bank of England, an operation it has in common with all the private bankers in the capital, I muſt anſwer a queſtion I have frequently heard propoſed.

How does it happen, that in a city of ſo great trade as London, it is poſſible that people ſhould be found even among merchants, who allow their money to remain in the hands of bankers without intereſt; when in Scotland, a place of ſo little trade, intereſt may always be got for money for the ſhorteſt time?

The anſwer to this queſtion is to be gathered from the very principles of trade itſelf.

The money which merchants have either in the hands of the bank, or of bankers, though very conſiderable at all times, is in perpetual fluctuation: it cannot then be lent to any but to a banker, who would conſent to pay intereſt for the ſums in hand. But no ſuch banker can be found, nor ever will be found, until all the bankers in London conſent to ſuch a regulation. The reaſon is plain. One principal uſe the bankers make of the average-money in their hands, is the diſcounting of bills. Who then could pay intereſt for money, and diſcount, in competition with others of the ſame trade, who have it for nothing?

But ſuppoſe the bank, and all the bankers in town, ſhould come to the reſolution of giving intereſt for the money in their hands, what would be the conſequence?

I anſwer, that upon ſuch an alteration, diſcount would riſe above the preſent rates, to the great prejudice

prejudice of the trade of the nation; and bankers would lend money in their hands upon a more precarious ſecurity for the ſake of a higher intereſt.

All the landed men who reſide in London, and many other wealthy people, not concerned in trade, conſtantly keep their money either in the bank, or in ſome banker's hand without intereſt: this enables bankers in general to diſcount foreign bills at 4 *per cent.* as has been ſaid, even when the rate of intereſt is rather above this ſtandard. This is, as it were, a contribution from the rich and idle, in favour of the trade of the nation.

Let, therefore, gentlemen who have much idle money, think of any other expedient than that of obtaining intereſt for it, from thoſe who diſcount bills in London. Not one of them can afford to do it, and thrive by his buſineſs; and the hurt which would reſult to trade in general, will conſtantly be a ſufficient bar againſt a general reſolution for that purpoſe.

What has been ſaid, will, I hope, prove ſatisfactory as to the reſolution of the queſtion above propoſed, ſo far as regards London. It remains to be anſwered, how thoſe who ſupply the place of bankers in Scotland, and even the banks themſelves can afford to pay intereſt for any ſum put into their hands for a ſhort time.

I anſwer, that as to the Scotch exchangers, as we have called them, the profits on their trade admit of borrowing money at intereſt, which that of the bank of England and private bankers cannot do. If theſe laſt can gain 4 or 5 *per cent.* by diſcounting of bills, it is all they can honeſtly expect:

every

every other employment of the money in their hands is precarious, either as to the ſecurity or promptitude of calling it in, to anſwer the demands which are made upon them.

As to Scotland, we have ſeen how directly contrary to all principles it is, for its banks to borrow money within the ſphere of their own circulation.—How this diminiſhes the profits upon their own trade, and hurts the circulation of the country; but although it diminiſh their profit, it carries along with it no poſitive loſs to them, as would be the caſe, were a London banker to pay intereſt for all the money in his hands, when he never can draw any back, except for that part which we have called the average.

Every London banker is obliged to have a certain ſum of caſh conſtantly in his cheſt, the intereſt of which would be all loſt, did he pay for it: whereas the exchangers in Scotland never have a ſhilling by them; and when any demand is made upon them, they draw the money from the banks, in conſequence of their credit by caſh accompts.

Beſides foreign bills, which the bank of England diſcounts at 4 *per cent.* they alſo diſcount inland bills, and notes of hand between merchants in London, at 5 *per cent.*

The inland bills to be diſcounted at the bank muſt all be payable in London. The bank calls in no money from any diſtant quarter of the kingdom.

As the diſcounting of notes of hand between London merchants might operate the ſame effect, as if the bank ſhould advance them money upon perſonal

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perſonal ſecurity, which would be the caſe, were the notes of hand drawn for obtaining credit, inſtead of paying money really due between the merchants, in the courſe of buſineſs; the clerks of the bank keep a watchful eye over this branch of management, and, by examining the reciprocal draughts of merchants between themſelves, they eaſily acquire a knowledge of the ſtate of their affairs, and are thereby enabled to judge how far it is expedient to launch out in diſcounting either the notes or bills wherein they are concerned.

I ſhall not pretend to aſſign a reaſon why, in the price of diſcount, the bank makes a difference of 1 *per cent.* between foreign and inland bills of exchange. It may either be an indulgence and encouragement to foreign trade; or it may be upon the conſideration of the better ſecurity of foreign bills, which commonly paſs through ſeveral indorſations before they are offered to be diſcounted at the bank.

I come next to the circulation between the bank and the exchequer.

The bank of England is to the exchequer, what a private perſon's banker is to him. It receives the caſh of the exchequer, and anſwers its demands.

Caſh comes to the exchequer from the amount of taxes. The two great branches of which are the exciſe and cuſtoms. To explain this operation with the more diſtinctneſs, I ſhall take the example of the exciſe.

The exciſe is computed to bring in annually from London, and the fifty two collections over all England,

England, nett into the exchequer, above four and a half millions ſterling.

The fifty two collectors ſend the amount of their collections to London eight times a year, *almoſt entirely in bills*. As the ſame may be ſaid of the remittances of all the other taxes, we may from this circumſtance obſerve by the way, that London alone muſt conſtantly owe to the country of England a ſum equal to all the bills drawn upon it; that is to ſay, to all the taxes which the country pays: a circumſtance not to be overlooked, from which many things may be learned, as will be taken notice of in the proper place.

The bills ſent by the fifty two collectors, are drawn payable to the commiſſioners of exciſe; they indorſe them to the receiver general; he carries them to the bank as they fall due, and gets a receipt for the amount; this receipt he carries to the exchequer, who charge it in their account with the bank, and deliver tallies to the receiver general for the amount of his payments; theſe tallies he delivers to the commiſſioners of exciſe, who enter them in their book of tallies. This operation is performed once every week, and ſerves as a diſcharge from the commiſſioners to the receiver general.

The bank, again, keeps an account with the exchequer, which is ſettled once every day, by two clerks, who go from the bank to the exchequer for this purpoſe. When coin is wanted by the exchequer, for payments where bank notes will not anſwer, the coin is furniſhed by the bank; when paper will ſerve the purpoſe, paper is iſſued.

Beſides

Beſides this operation in the receipt of taxes, the bank advances to government, that is to the exchequer, the amount of the land or other taxes impoſed, which are to be levied within the year. This we ſee is a loan upon *government ſecurity for a ſhort term*, quite conſiſtent with the principles upon which the bank is eſtabliſhed. The large ſums the bank is conſtantly receiving of public money, and the great aſſiſtance it obtains from thence in carrying on the other branches of its trade, enable it at preſent to make advances of money to government at 3 *per cent.* It obſerves the ſame rule with reſpect to the great companies of the Eaſt Indies, and South Sea, for the ſame reaſon; but no advances are made to private people; and in the diſcounting of bills and notes of hand, the regulations above mentioned are adhered to.

Thus the whole amount of taxes is poured into the bank, in the manner we have been deſcribing.

The bank alſo keeps the transfer books of all the funds negotiated at the bank; and out of the public money in its hand, it pays the intereſt of theſe funds for which government allows to the bank a ſum proportionate to the expence of this branch of management.

When the bank, as a company, lends to government upon a permanent fund, the capital whereof is not demandable, this operation is foreign to their buſineſs as a bank, and is conducted by the company as an article of management of their private property.

Let

Let us now examine by what channels their notes enter into circulation, and the ſecurity upon which they ſtand.

When iſſued in the diſcount of bills, they ſtand upon the principles of mercantile credit, and depend upon the goodneſs of the bills diſcounted. When iſſued upon the faith of taxes to be paid within the year, they ſtand upon the ſecurity of this payment, which is of a very complex nature, as any one may perceive. As long as the inhabitants of England conſume exciſeable goods, the exciſe will be paid: as long as trade goes on, cuſtoms will be paid: and as long as government ſubſiſts, the collateral ſecurity of the ſtate will ſerve to make up all deficiencies in the amount of taxes. No ſecurity, therefore, can be better than the notes of the bank of England, while government ſubſiſts. The loſſes that great companies meet with from bad debts, I am informed, are very inconſiderable.

The greateſt riſk the bank runs, is in diſcounting bad bills; but by the extent of their buſineſs in this branch, and by circulating the caſh of all the merchants who keep accounts with them, they acquire ſo perfect a knowledge of the ſtate of their affairs, that it rarely happens that any one can break for very conſiderable ſums, without the bank's having a previous notice of it. A ſudden loſs may no doubt happen, without a poſſibility of being foreſeen; but the matter of fact proving that their loſſes upon bad bills are inconſiderable, we may thence infer, that there is but little myſtery to the

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bank, with regard to the credit of London merchants.

I come now to the laſt branch of their management, to wit, their trade in gold and ſilver.

For the circulation of bank notes, coin is neceſſary. We have ſeen, in treating of the Scotch banks, how coin is brought in: to wit, in conſequence of all the payments made to the bank, in which there muſt be a proportion of coin equal to what is found in common circulation. What is not paid in coin, comes in, in their own notes, which are thereby taken out of the circle; and conſequently make place for a ſubſequent ſupply, which iſſues in the manner we have deſcribed.

In times of peace, and a favourable balance of trade, the bank ſuffers little by the obligation it is under to pay in coin, except as far as the great confuſion of the preſent currency affords an occaſion to money-jobbers to melt down the new guineas. The extent of this traffic I am no judge of, and the bank no doubt has an intereſt in preventing it as far as the laws have provided a remedy againſt it.

But when large payments are to be made abroad, the diſtreſs of the bank is no doubt very great.

In Scotland, the banks, upon ſuch occaſions, are totally drained of coin. They have no market for the metals; becauſe they have no mint to manufacture them into coin. It is different with reſpect to the bank of England; their diſtreſs proceeds from another cauſe.

The exportation of the heavy guineas in time of war, and during a wrong balance upon the trade of England,

England, leaves circulation provided with a light currency only, in which the bank is obliged to pay their notes; and the intrinsic value of the gold in which they pay, regulates the price of the metals they are obliged to buy at market. If they provide them themselves from abroad, they must pay the price of them in bills of exchange. But then the lightness of the currency at home sinks the value of the pound sterling, as it raises the value of the ounce of gold and silver. So the only considerable loss they incur, is in providing the metals, which must ever be considerable, as long as the old guineas remain in circulation.

The loss upon coining silver is still greater than upon gold; because, besides the loss incurred by reason of the lightness of the gold, the metals in the silver and gold coin of Great Britain, are not proportional to the value they bear in the London market, where they have been bought; as has been sufficiently explained already in another place *.

It is with great diffidence that I propose to a company so knowing in the arts and science of trade, an expedient for preventing, in a great measure, this loss in providing the metals for the use of circulation. The bank is directed by long experience, and by a knowledge of many facts and circumstances hidden from me; and which, therefore, I cannot bring into a theory founded chiefly upon reason.

The expedient I propose has been pointed out in the preceding parts of this inquiry, and I recapitu-

* See Book III. Chap. 21. Quest. 7.

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late it briefly in this place, to recal it only to mind while we are on the ſubject of the bank of England.

Firſt, then, while the coin is of unequal weight, the value of the currency never can be permanently the ſame. Did the bank ſeriouſly ſet about forming a plan for the reformation of the coin, I have no doubt but government, as well as the voice of the nation, would go along with it in forwarding the execution of ſo noble a deſign.

The ſecond ſtep I ſhould recommend, is, that government ſhould enable the bank to eſtabliſh a fund in Holland, Antwerp, Hamburg, and perhaps at Cadiz and Liſbon, for borrowing (though at a high intereſt) ſums of money equal to what may be due by England to the continent upon certain emergencies.

I cannot pretend to lay down any plan for this operation; but I proceed upon this principle: that if on like occaſions the Britiſh government can find credit to borrow ſo large ſums for the uſes of war, at a very moderate intereſt, ſurely the bank of England may imitate her example for the uſes of trade; and had ſhe a credit abroad, upon which ſhe could draw, I think it muſt follow, that the coin of the nation might be kept at home.

I have been an eye-witneſs to large ſums in new Engliſh guineas being thrown into the melting pots of the Dutch mints, for the ſmall profit of leſs than 1 *per cent.* gained by coining them into ducats. A ſmall duty impoſed upon coinage in the Engliſh mint, would prevent this practice abroad; and then Britiſh coin would come ſafe back again, upon every

every return of a favourable balance on our trade. At preſent it comes home in bullion, which the bank muſt buy dear; the ſtate muſt coin at a conſiderable expence; and the bank after all muſt give it to circulation at the mint price, which is many *per cent.* below prime coſt, as matters have ſtood for ſeveral years.

From this review of the conſtitution of the bank of England, and of the principles upon which it is founded, we may diſcover how impoſſible it is, that banks upon mortgage and private credit, can ever receive any conſiderable aſſiſtance from it; and how groundleſs all inſinuations concerning its jealouſy of ſuch companies muſt be.

A more natural object of its jealouſy is that of the London bankers, who carry on a trade ſimilar to its own, in many reſpects, and who, in the courſe of their buſineſs, draw from it very large quantities of coin.

This, however, occaſions no ill will on the part of the bank. The trade of London requires the aſſiſtance of all the bankers there, as well as of the bank. Were it otherwiſe, the bank, by diſcounting bills at a leſs profit, might ſoon oblige them to ſhut up ſhop. In this view of the matter, the drawing of coin from the bank cannot be prevented.

The bankers call for no more than their buſineſs requires. Could the bank, therefore, circulate the whole trade of London, the conſequence would be, to iſſue as much and no more coin than at preſent: and the coin which iſſues from bankers, like to that which iſſues from the bank, if it be for the uſes of

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domeſtic circulation, returns to the bank in proportion as it iſſues: and if it be for payment of a foreign balance, the bank knows well that the expence of providing for *that*, muſt come upon it, in ſpite of every method to prevent it.

I muſt now explain the difference between the effects produced upon the circulation of coin, by the operations of banks eſtabliſhed upon mortgage and private credit; and by the operations of the bank of England, which we have ſaid to be eſtabliſhed upon mercantile ſecurity.

The conſequence of a bank upon mortgage, is to fill the nation with paper money, and to reduce the quantity of coin to the loweſt ſum poſſible. For the truth of this propoſition, I appeal to the experience of Scotland, and of Rome, where banks upon mortgage, and moveable pledges, are found eſtabliſhed. From theſe facts, and from the principles of their conſtitution, which is to melt down property into money, it follows, that when the credit of ſuch money is well eſtabliſhed, the coin, which is the money of the world, will be employed in trading with the world, and the paper, which is the money of the ſociety, will be employed in trading with the ſociety.

The conſequence of this is, that when the balance of trade runs againſt a country where banks upon mortgage are eſtabliſhed, the coin firſt goes out; and when, by borrowing, it can be brought back, the intereſt paid for the coin borrowed, makes an additional balance againſt the country, until the whole revenue of it becomes the property of other nations. From this we may conclude, that the

eſtabliſhment of ſuch banks is as dangerous a weapon in the hands of an idle nation, as an extenſive credit is to the family of a young ſpendthrift.

But let us conſider the conſequences of ſuch banks to an induſtrious people, who preſerve, upon the average of their trade, a favourable balance with other nations.

The coin, then, goes out in order to return, and ſerves as a check upon the courſe of exchange.—I here ſuppoſe proper regulations in the mint, and an entire liberty to export coin. Permitting the exportation of coin where you have a mint, for paper to ſupply its place, and a favourable balance on your trade to bring it back, is like eſtabliſhing two ſhops for the courſe of exchange. If the exchanger will not ſerve trade at the price of tranſportation and inſurance, the coin will do it for him.

In ſuch a country, a bank, properly eſtabliſhed, will find great profit upon the intereſt of their notes, notwithſtanding the obligation to provide, at all times, the quantity of coin neceſſary for circulation. All the great objects of trade will then be fulfilled; the reſt muſt be left to the operation of political cauſes.

If the balance of the trade of ſuch a country ſhould have the effect of bringing in an addition of coin, which, becauſe of the paper, would become unneceſſary for circulation; this coin, or the value of it, will either be added to their ſtock in trade, or will be lent to other nations. This is the caſe of the Swiſs: they are an induſtrious and a frugal people; they receive annually from their trade, and

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from the ſervice of their citizens in many countries in Europe, a conſtant addition to their wealth, more than their trade demands, which they lend to their neighbours; by theſe means they increaſe the revenue of the ſociety; and this increaſe has effects almoſt ſimilar to an extenſion of their territory; becauſe it is the means of increaſing their population beyond the proportion of the natural produce of their lands; and the food they import from Germany and other countries, is paid with the money which ariſes from the intereſt of what they have lent abroad. All theſe operations are the conſequences of credit and circulation.

In a country where a mercantile bank is eſtabliſhed, the melting down of property is greatly circumſcribed; and conſequently coin becomes more neceſſary.

We have often ſaid, that a circulating value (money) muſt conſtantly bear a proportion to alienation. Circumſtances will determine what proportion of coin and what proportion of paper will be neceſſary for carrying it on. Theſe circumſtances, under banks of circulation upon mortgage, multiply paper ſo much that little coin is required.

Let us now examine how far the paper of a mercantile bank, like that of England, tends to ſupply the demand of circulation.

Were no bank eſtabliſhed at London, all bills would be paid, or diſcounted in coin.

The bank, therefore, melts down into paper money all the bills diſcounted by them, and throws it into circulation.

It

It alſo melts down into paper all the ſums it advances either to government, or to the great trading companies. In this reſpect it acts upon the principle of banks upon mortgage.

It alſo melts down into paper all the intereſt upon the public funds paid at the bank. All this ſum of paper iſſues from the bank into the city of London, and proportionally ſupplies the circulation of that great capital.

Let us next examine how this paper can find its way into the country of England, there to ſupply the uſe of coin.

The whole conſumption of London for meat, beer, fire, and an infinity of articles of manufacture for domeſtic uſe and foreign exportation, comes from the country of England.

Did the country owe nothing to London, the ſums due for thoſe commodities would be ſent into the country in the current circulation of London, which, by what we have ſeen, abſorbs a very large quantity of paper.

But we have ſaid above, that the whole amount of taxes, almoſt, is remitted to London in bills: this could not be the caſe, were not the capital conſtantly indebted to the country. This circumſtance confines the circulation of bank notes chiefly to London, and ſome other cities, to which the inhabitants of London reſort, and whither they carry in their pockets the money of the capital, viz. bank notes. For theſe reaſons, bank notes can never be common in the country: and if, at any time, a ſcarcity of currency *there*, proves hurtful to induſtry, the defect cannot be remedied but by eſtabliſhing

liſhing banks of circulation upon mortgage in the principal towns of England.

It may be here objected that ſuch a regulation in England, where there is already ſo great a bank ſettled on different principles, might draw along with it the following hurtful conſequences, viz.

Firſt, By multiplying the circulation of paper it would ſend off the coin.

Secondly, The taxes would be paid in this paper, which could not be received at the bank of England, and this would throw the whole nation into confuſion.

To which I anſwer, Firſt, That if the coin were ſent off, it would return, as has been ſaid, while the trade of England flouriſhes: and, Secondly, That this new bank paper coming in the place of the coin, would no more be ſent to London than coin is ſent now. The debts due by the country for taxes, would be compenſated by the reciprocal debts due by London for ſubſiſtence, &c. and the compenſation would go on as at preſent by bills: but were the caſe otherwiſe, and did a change of circumſtances oblige the country to make delivery in coin to London, the holders of the country notes would conſtantly, as is the caſe in Scotland, have recourſe to the bank eſtabliſhed in the diſtrict, for the coin wanted to be ſent to London.

When I accidentally, as at preſent, happen to apply a principle to a particular caſe, whereby an innovation upon the cuſtoms of a country is implied, I conſtantly fear a ſecret rebuke from many impatient readers. I therefore beg a little indulgence upon account of my good intention, which is merely

merely to ſuggeſt ideas to be approved of, or rejected by thoſe who have the capacity to form plans upon them, and power to put them in execution.

CHAP. XXIII.

Of the firſt Eſtabliſhment of Mr. Law's Bank in France, in the Year 1716.

IN deducing the principles of credit, I have it chiefly in view, to ſet in a fair light, the ſecurity upon which paper money is eſtabliſhed: and as I imagine, this important branch of my ſubject will ſtill be rendered more intelligible, by an example of the abuſe to which this great engine of commerce is expoſed, I now propoſe to give my reader a ſhort account of the famous bank of circulation firſt eſtabliſhed in France by Mr. Law; but afterwards proſtituted (whether by deſign, or by fatality, I ſhall not here determine) to ſerve the worſt of purpoſes; defrauding the creditors of the ſtate, and a multitude of private perſons.

So dreadful a calamity brought upon that nation, by the abuſe of paper credit, may be a warning to all ſtates to beware of the like. The beſt way to guard againſt it, is to be appriſed of the deluſion of it, and to ſee through the ſprings and motives by which the Miſſiſippi bank was conducted.

After the death of the late King of France, Louis XIV. the debts contracted by that Monarch were

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were found to extend to 2000 millions of livres, that is, to upwards of 140 millions ſterling.

It was propoſed to the Duke of Orleans, regent of the kingdom, to expunge the debts by a total bankruptcy. This propoſal he rejected nobly; and, inſtead of it, eſtabliſhed a commiſſion (called the *Viſa*) to inquire into the claims of ſuch of the nation's creditors as were not then properly liquidated, nor ſecured by the appropriation of any fund for the payment of the intereſt.

In the courſe of this commiſſion, many exorbitant frauds were diſcovered; by which it appeared, that vaſt ſums of debt had been contracted, for no adequate value paid to the King.

After many arbitrary proceedings, this commiſſion threw the King's debts, at laſt, into a kind of order.

Thoſe formerly provided for were all put at 4 *per cent.* The creditors to the amount of ſix hundred millions, which had not been liquidated, nor provided for, had their claims reduced, by the commiſſion, to two hundred and fifty millions; for which they obtained notes of ſtate, (*Billets d'état*, as they were called,) bearing an intereſt of 4 *per cent.* alſo.

Theſe operations performed, the total debts of the late King were reduced to the ſum above mentioned; to wit, two thouſand millions; bearing an intereſt of 4 *per cent.* or eighty millions *per annum.*

From the neceſſities of government, and the diſtreſſed ſituation of the kingdom, this intereſt was ill

ill paid; and there hardly remained, out of an ill-paid revenue, wherewith to defray the expence of the civil government.

About this time Mr. Law preſented to the Regent the plan of a bank of circulation.

For the better underſtanding of this affair of Mr. Law's bank, and the views he had in eſtabliſhing it at that time, I muſt give a ſhort account of the moſt material variations of the French coin, before and after the King's death, 1ſt September 1715; which I ſhall make as ſhort as poſſible, conſiſtently with perſpicuity.

CHAP. XXIV.

Account of the Variations of the French Coin, ſome time before and after the Death of Louis XIV.

IN 1709, there was a new general coinage in France; by which operation the King gained $23\frac{1}{17}$ *per cent.* upon all the ſpecie coined. (Dutot, vol. i. p. 104.)

Out of the marc of ſtandard gold were coined 30 louis d'ors, of 20 livres denomination each. Out of the marc of ſtandard ſilver, 8 crowns, of 5 livres denomination each: ſo that the ſilver was put at 40 livres the marc.—But,

By edict of the month of September 1713, the old King appointed a diminution of the denomination of ſilver and gold coins; by which, after eleven ſucceſſive changes, the coin of France was ordered to be brought down, from 40 livres the marc,

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marc, to 28: ſo that the 8 crowns, which were *called* 40 livres in the month of September 1713, by the 2d day of September 1715 (the day after the King's death), were to be *called* only 28 livres. I ſay *called*, becauſe certainly the crowns had ſuffered no variation but in their name.

On the 13th of Auguſt 1715 (a few days before the King's death) he iſſued a declaration; ordering that for the future the ſilver coin ſhould remain at 28 livres *per* marc.

From this I conclude, that his intention was to leave, at his death, the coin of his kingdom of the ſame ſtandard he had found it to be at the beginning of his reign, and at which he had preſerved it invariably, during the flouriſhing ſtate of his kingdom, for the ſpace of 46 years; that is, until the year 1689.

He could not fail to be ſenſible of the infinite prejudice occaſioned to debtors and creditors by the variations he had practiſed upon the coin from 1689.

To this ſtandard, then, it was brought the very day after his death, and no ſooner: therefore his debt of two thouſand millions of livres ſhould regularly be eſtimated according to this rate: or at about 40 ſhillings ſterling for every 28 livres: 40 ſhillings being, within a trifle, the value of 8 ounces or one marc of ſtandard ſilver, Paris weight.

At this rate of converſion, the two thouſand millions were equal to 142,857,140 *l.* ſterling.

Soon after the King's death, on the 2d of January 1716, the new miniſtry iſſued an edict, which totally deſtroyed all. This was the moſt extraordinary

dinary operation, I believe, that ever was invented; and to it was owing the eſtabliſhment of Mr. Law's bank: I muſt therefore explain it.

There had been no general coinage ſince 1709; the louis d'or had then been coined at 20 livres, and the crowns at 5, as has been ſaid. The edict of 2d January 1716, ordered a new general coinage, on the ſame footing, both as to weight, fineneſs, and denomination, as that of 1709: the only difference was, that the firſt had an old man's head upon it; the other had that of a child of ſix years old.

By this firſt operation, there was an end put to the former diminutions on the denomination of the coin; which was now raiſed again to 40 livres the marc, as in 1709 *. This is nothing.

There being no difference between the old coin and the new, except the ſtamp, the old coin was called in, and a new face was ſtamped on the very ſame pieces. But when the louis d'ors were called in, they were received at the mint at no more than 16 livres; and by a ſtroke of the wheel, they were, in an inſtant, converted into 20 livres, the denomination of the new coin.

Thus a perſon who brought 20 old louis d'ors to the mint, received back 16 of his own 20, new ſtamped, and no injuſtice was ſaid to be done, from this demonſtration of miniſterial algebra, viz.

* Here is alſo an operation upon debts. The day before this edict, that is, the 1ſt of January 1716, the value of the King's debts was (as has been ſaid) above 142 millions ſterling: but an edict comes, raiſing the coin to 40 livres *per* marc; and conſequently, reducing the debts to the value of 100 millions ſterling.

$16 \times 20 = 20 \times 16$. Can any thing be more clear and inſtructive! Some of my readers may not give credit to this; but it is true nevertheleſs.

Under theſe circumſtances, it was natural for the inhabitants to wiſh to diſpoſe of their old coin, at any other market than at the King's mint. They did what they could to ſmuggle it to Holland; where the induſtrious Dutchman ſtamped a 16 livre piece with the head of a child, as well as the King of France could do, and ſent it back to France for a 20 livre piece. Theſe operations were prevented as well as government could; and every method was tried to force in the old coin to the mint.

Mr. Law judged this a very proper occaſion to form the plan of a bank of circulation, upon the principles we have already explained.

He gave in his ſcheme to the Duke of Orleans; by whom it was approved of; and the bank was eſtabliſhed the 2d of May of the ſame year 1716.

The firſt thing Mr. Law did, was to buy up with bank notes this old coin, at a price above what the mint gave for it; but many *per cent.* below the proportion of its value: his paper (payable in the new coin at 40 livres *per* marc) was ſought after for this as well as other reaſons; and an immenſe profit enſued.

This anecdote, I think, is curious, and tends to unfold Mr. Law's combinations, in the propoſal he made to the Duke of Orleans for erecting a bank at this period of time.

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Continuation of the Account of Law's Bank.

THE bank accordingly was eſtabliſhed in favour of Law and Company, by letters patent, of the 2d of May 1716. The Company was called, the General Bank; and the note run thus:

The bank promiſes to pay to the bearer at ſight — livres, in coin of the ſame weight and fineneſs with the coin of this day, value received at Paris.

The firſt fund of this bank conſiſted in 1200 actions (or ſhares) of one thouſand crowns (or 5000 livres) bank money; in all ſix millions; the crown being then 5 livres, 8 to the marc; ſilver coin at 40 livres *per* marc, as has been ſaid: which makes this livre juſt worth one ſhilling ſterling: conſequently, the ſhares were worth 250 *l.* ſterling, and the bank ſtock worth 300,000 *l.* ſterling.

By the clauſe in the note, by which the bank was obliged to pay according to the then weight and fineneſs of the coin, thoſe who received their paper were ſecured againſt the arbitrary meaſures common in France of raiſing the denomination of the coin; and the bank was ſecured againſt the lowering of it. In a ſhort time, moſt people preferred the notes to the coin; and accordingly they paſſed for 1 *per cent.* more than the coin itſelf.

This bank ſubſiſted, and obtained great credit, until the 1ſt of January 1719; at which time the

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King reimburſed all the proprietors of the ſhares, and took the bank into his own hand, under the name of the Royal Bank *.

Upon this revolution, the tenor of the note was changed. It ran thus: The bank promiſes to pay to the bearer at ſight, — livres, *in ſilver coin*, value received at Paris.

By this alteration, the money in the notes was made to keep pace with the money in the coin; and both were equally affected by every arbitrary variation upon it. This was called rendering the paper *monnoie fixe*; becauſe the denominations contained in it did not vary according to the variations of the coin: I ſhould have called it *monnoie variable*; becauſe it was expoſed to changes with reſpect to its real value.

Mr. Law ſtrenuouſly oppoſed this change in the bank notes. No wonder! it was diametrically oppoſite to all principles of credit. It took place, however; and nobody ſeemed diſſatisfied: the nation was rather pleaſed: ſo familiar were the variations of the coin in thoſe days, that no body ever conſidered any thing with regard to coin or money, but its denomination: the conſequences of the variations in the value of denominations, upon the accompts between debtors and creditors, were not then attended to; and the credit of the notes of

* Here the bank departed from the principles of private and mercantile credit, upon which Law had formed it, and proceeded upon thoſe of public credit. Public credit in France is the credit of the Sovereign; the ſolidity of which depends upon the maxims which he follows in the courſe of his adminiſtration.

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the royal bank continued juſt as good as the credit of thoſe of Mr. Law's had been; although the livres in *this* contained a determinate value; and the livres in *that* could have been reduced at any time to the value of halfpence, by an act of the King's authority, who was the debtor in them. Nay more, they in fact ſtood many variations during the courſe of the ſyſtem, without ſuffering the ſmalleſt diſcredit. This appears wonderful; and yet it is a fact.

Political writers upon the affairs of France at this period, ſuch as De Melon, Savarie, Dutot, and others, abundantly certify the incredible advantage produced by the operations of Mr. Law's bank; and the chain of events which followed, in the years 1719, and 1720, when it was in the King's hands, ſhew to what a prodigious height credit aroſe upon the firm foundation laid by Mr. Law *.

But

* Dutot, ſpeaking of the great value of paper in notes and actions, throws out ſeveral reflections, in the paſſage I am now to tranſcribe from him, which, at the ſame time that they prove the great advantages reſulting to France from the eſtabliſhment of credit among them, abundantly evince how lame this author's ideas were concerning the principles of paper credit, and of circulation. He ſays, (vol. ii. p. 200.) "*This paper* was indeed juſt ſo much real value, which credit and confidence had created in favour of the ſtate: and by this ſum was circulation augmented, independently of all the coin which was then in France.

"Upon this revolution, Plenty immediately diſplayed herſelf through all the towns, and all the country. She there relieved our citizens and labourers from the oppreſſion of debts, which indigence had obliged them to contract: ſhe revived induſtry: ſhe reſtored that value to every fund, which had

But alas! the ſuperſtructure, then, became ſo far beyond the proportion of the foundation, that the whole fabric fell to ruin, and involved a nation, juſt emerging from bankruptcy and ruin, into new calamities, almoſt equal to the former.

As long as the credit of this bank ſubſiſted, it appeared to the French to be perfectly ſolid. The bubble no ſooner burſted, than the whole nation was thrown into aſtoniſhment and conſternation. Nobody

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" been ſuſpended by thoſe debts: ſhe enabled the King to free " himſelf, and to make over to his ſubjects, for more than fifty- " two millions of taxes, which had been impoſed in the years " preceding 1719; and for more than thirty-five millions of other " duties, extinguiſhed during the regency. This plenty ſunk " the rate of intereſt; cruſhed the uſurer; carried the value of " lands to eighty and a hundred years' purchaſe; raiſed up " ſtately edifices both in town and country; repaired the old, " which were falling to ruin; improved the ſoil; gave a value " to every fruit produced by the earth, which before that time " had none at all. Plenty recalled thoſe citizens, whom miſery " had forced to ſeek their livelihood abroad. In a word, riches " flowed in from every quarter. Gold, ſilver, precious ſtones, or- " naments of all kinds, which contribute to luxury and magnifi- " cence, came to us from every country in Europe. Whether " theſe prodigies, or marvellous effects, were produced by art, " by confidence, by fear, or by whim if you pleaſe, one muſt " agree, that that art, that confidence, that fear, or that whim, " had operated all theſe *realities* which the antient adminiſtration " never could have produced.

" What a difference in the ſituation of France at the begin- " ning of the regency, and the ſituation in which ſhe was in " November 1719!

" Thus far the ſyſtem had produced nothing but good: " every thing was commendable, and worthy of admiration." Theſe are the ſentiments of Dutot, concerning this ſyſtem of paper credit.

Nobody could conceive from whence the credit had ſprung; what had created ſuch mountains of wealth in ſo ſhort a time; and by what witchcraft and faſcination it had been made to diſappear in an inſtant, in the ſhort period of one day.

Volumes have been ſince written in France, by men of ſpeculation, in order to prove, that it was a want of confidence in the public, and not the want of a proper ſecurity for the paper, which occaſioned this downfal.

This, if we judge by what has been written, has been the general opinion of that nation to this day: and ſince it was found impoſſible, in France, to create confidence in circulating paper, which had no ſecurity for its value, many people there, and ſome even among ourſelves, conclude, that a great part of the wealth of Great Britain, which conſiſts in paper, well ſecured, is falſe and fictitious.

I ſhall now proceed to ſet before my reader the great lines of the royal Miſſiſippi bank of France, from the 1ſt of January 1719, to the total overthrow of all credit, upon the fatal 21ſt day of May 1720. This was a golden dream, in which the French nation, and a great part of Europe was plunged, for the ſhort ſpace of 506 days.

CHAP. XXVI.

Account of the Royal Miſſiſippi Bank of France, eſtabliſhed on Public Credit.

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IN order to unravel the chaos of this affair in a proper manner, it will not be amiſs to begin by giving the reader an idea of the plan which naturally might ſuggeſt itſelf to the regent of France, from the hint of Mr. Law's bank. By the help of this clue, he will be the better able to conduct himſelf through the operations of this *ſyſtem*, as the French call it.

The Regent perceived, that in conſequence of the credit of Law's bank, people grew fond of paper-money. The conſequence of this, he ſaw, was to bring a great quantity of coin into the bank. The debts of France were very great, being, as has been ſaid, above 2000 millions. The coin, at this time, in France, was reckoned at about 1200 millions, at 60 livres the marc, or 40 millions ſterling. The Regent thought, that if he could draw either the whole, or even the greateſt part of this 1200 millions of coin into his bank, and replace the uſe of it to the kingdom, by as much paper, ſecured upon his word, that he ſhould then be able to pay off, with it, near one half of all the debts of France: and by thus throwing back the coin into circulation, in paying off the debts, that it would return of itſelf into the bank, in the courſe of

of payments made to the ſtate; that credit would be thereby ſupported, as the bank would be enabled to pay in coin the notes as they happened to return, in the courſe of domeſtic circulation.

This was both a plauſible and an honeſt ſcheme, relatively to a Duke of Orleans, whom we cannot ſuppoſe to have been maſter of the principles of credit; and very practicable in a country where there was ſo great a quantity of coin as 40 millions ſterling, and a well-eſtabliſhed credit in the bank, which prevented all runs upon it from diffidence. Nothing but a wrong balance of trade could have occaſioned any run for coin; becauſe, for the reaſon already given, the paper bore for the moſt part a premium of 1 *per cent*, above it.

Accordingly, during the whole year 1719, the credit of the royal bank was without ſuſpicion, although the regent had, by the laſt day of December of that year, coined of bank paper, for no leſs a ſum than 769 millions, reckoning in 59 millions of paper, which had been formerly iſſued by the *general bank of Law and company;* for which he had given value to the proprietors, when he took the bank into his own hands, as we have ſaid above.

I muſt here obſerve, that by this plan of the Regent, there was, in one ſenſe, a kind of ſecurity for the notes iſſued. So far as they were iſſued for coin brought in from the advanced value of the paper, this coin was the ſecurity: in the ſecond place, when the coin was paid away to the creditors of the ſtate, the Regent withdrew the obligations which had been granted to them; and al-

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though I allow that the King's own obligation withdrawn, was no ſecurity to the public, who had received bank notes for the payment of it; yet ſtill the intereſt formerly paid to the creditors, was a fund out of which, upon the principles of public credit, the annual intereſt for the notes was ſecured. Had, indeed, the French nation perceived upon what bottom the ſecurity for the paper ſtood, during the year 1719, perhaps the credit of the bank might have been rendered precarious; but they neither ſaw it or ſought after it: and the men of ſpeculation were all of opinion, that as long as there was no more paper iſſued by the bank *than there was coin in the kingdom*, there could be no harm done. Of this, any perſon who has read Dutot, De Melon, Savarie, and others, will be perfectly ſatisfied*. And I deſire no farther proof of the total

* It is aſtoniſhing to find how gravely Meſſrs. De Melon and Dutot reaſoned concerning the nature of paper money, and the effects of changing the value of the coin. They both ſeemed to agree that a livre was a livre whether it was the 28th or the 50th part of a marc of ſilver, whether it was a denomination upon paper, well or ill ſecured, no matter which.

The whole reaſoning turned merely on the queſtion, who were robbed, and who fantaſtically enriched, by ſuch abſurd operations upon the coin of a country?

The jargon of ſuch men certainly contributed a great deal to darken the underſtandings of the miniſtry at this time; and to make them believe that the affairs of money were infinitely more obſcure and more difficult to be underſtood than they really are.

There are thouſands of examples where mankind, with their learning and reaſoning, have turned common ſenſe into inextricable ſcience; this I think is a famous inſtance of it: and it is rendering no ſmall ſervice to the world, to deſtroy, in a manner,

total ignorance of the French in matters of this kind, than to find them agreeing, that bank paper muſt always be good, provided there be coin in the nation to realize it, although that coin be not the property of the bank. [Dutot, p. 132, 133.] On the contrary, it is very evident from what has been ſaid, that although there ſhould be a thouſand times more coin in a country than the bank paper, ſtill that bank paper muſt be a mere deluſion, and, in fact, of no value whatſoever, except ſo far as the bank is poſſeſſed of the value of it in one ſpecies of property or another.

And on the other hand, let the bank paper exceed the quantity of coin in the proportion of a thouſand to one, yet ſtill it is perfectly good and ſufficient, provided the bank be poſſeſſed of an equivalent value

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ner, what others have been at ſo much pains to eſtabliſh. This is reſtoring common ſenſe to its native dreſs, in which it becomes intelligible to every one.

I know very well that the miniſtry of France have now very different notions concerning paper credit; but theſe notions have not as yet reached the preſs; except in ſome of the King's anſwers to the remonſtrances of the parliament of Paris in 1760. Theſe anſwers were dictated upon ſound principles, and do great honour to the miniſtry.

The old notions ſtill prevailed in the remonſtrances of the parliament. This plainly appears from the propoſal they made to the King, at that time, to iſſue paper to the amount of 200 millions, which the parliament was to make good: an expedient to avoid doing that which right reaſon demanded of them, viz. firſt to ſecure a fund for the paper, and then to borrow upon that fund. This propoſal from the parliament, and the King's rejecting it, proves that credit was then better underſtood in the cabinet than in the *palais*.

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in any ſpecies of good property. This I throw in here to point out how far the French were, at leaſt at that time, and many years after, when Dutot and Melon wrote, from forming any juſt notion of the principles of banking. And, I believe, I may venture to ſay, that the only reaſon why banks have never been eſtabliſhed in France, is, becauſe the whole operation is ſtill a myſtery to them. I ground this conjecture upon an opinion of M. de Monteſquieu, who thinks that banks are incompatible, with pure monarchy; a propoſition he would never have advanced, had he underſtood the principles upon which they are eſtabliſhed.

The next remarkable and intereſting revolution made upon this famous bank, was by the *arret* of February 22, 1720; which conſtituted the union of the royal bank with the company of the Indies.

By this *arret*, the King delivered to that company the whole management of the bank with all the profits made by him ſince the firſt of January 1719, and to be made in time to come. Notwithſtanding this ceſſion, the King remained guarantee for all the notes, which were not to be coined without an order of council: the company was to be reſponſible to the King at all times for their adminiſtration; and, as a ſecurity for their good management, they engaged to lend the King no leſs than ſixteen hundred millions of livres.

Here is the æra and beginning of all the confuſion. From this loan proceeded the downfal of the whole ſyſtem.

But before I proceed to explain the ſcheme of the Regent in theſe operations upon credit, I think it will

will contribute to the clearing up of the ſubject in general, to premiſe ſome ſhort account of the riſe and progreſs of this great company of the Indies: and to give a ſhort abſtract of ſome of the moſt memorable tranſactions during the Miſſiſippi ſcheme, in the order of time in which they followed one another.

CHAP. XXVII.

A ſhort Account of the French Company of the Indies.

CARDINAL de Richlieu, that great miniſter to Louis XIII. was the firſt who eſtabliſhed trading companies in France, 1628, about the time of the ſiege of Rochelle.

He then ſet on foot the companies of the Weſt and Eaſt Indies.

Several others, viz. one for Canada, one for the Leeward Iſlands, and another for Cayenne, were ſucceſſively eſtabliſhed in the beginning of the reign of Louis XIV.

Theſe companies, before 1664, had frequently changed their forms, and had ſucceeded very ill.

At that time the great Colbert was in the adminiſtration of the King's affairs. He engaged his maſter to think ſeriouſly of eſtabliſhing the trade of his kingdom upon ſolid principles: for which reaſon all the partners in the former projects of commerce to the new world were reimburſed; and a new eſtabliſhment was made, called the *Compagnie des Indes Occidentales.*

This

This excluſive trade comprehended that of Canada, the Caribbee Iſlands, Acady, Newfoundland, Cayenne, the French continent of America, from the river of the Amazons to that of Oronoko, the coaſts of Senegal, Goree, and other places in Africa; the whole for 40 years.

The ſame year, 1664, there was another company formed for the Eaſt Indies, of which we ſhall ſpeak afterwards.

The greateſt encouragement was given to theſe new eſtabliſhments. Large ſums were advanced by the King for ſeveral years without intereſt, and upon condition, that if at the end of that term, any loſs were found on the trade, it ſhould fall upon the money due to the King.

On examining into the Weſt India company's affairs, after ten years' adminiſtration, that is to ſay, in the year 1674, it was found, that inſtead of profiting of their excluſive privilege, by carrying on a regular trade themſelves, they had ſold permiſſions to private people to trade with them.

This abuſe committed by the company had, however, inſpired a taſte for trade among the French; which the King wiſhing to promote, he reimburſed to the company all their expences, added their poſſeſſions to his domain, and threw the trade open to his ſubjects.

Thus ended the firſt company of the Weſt-Indies, called by the French, the *Compagnie d'Occident*.

After the ſuppreſſion of this company, the French trade to America was carried on and improved by private adventurers, ſome of which obtained particular grants, to enable them to form colonies. Of this number

number was Robert Chevalier de la Sale, a native of Rouen. It was he who firſt diſcovered the river Miſſiſippi, and who propoſed to the King, in 1683, to eſtabliſh a colony there. He loſt his life in the attempt.

Hiberville, a Canadian, took up the project; but ſoon died. He was ſucceeded by Antony Crozat, in 1712, who had better ſucceſs: but the death of the King in 1715, and the riſing genius of Mr. Law, engaged the Regent of France to make Crozat renounce his excluſive privilege of trading. Upon which, by edict of the 6th of September 1717, was formed the ſecond *Compagnie d'Occident*, in favour of Mr. Law: to which was added the fur trade of Canada, then in the hands of private adventurers, and with theſe, the farm of the tobacco, for which he paid 1,500,000 livres a year.

I now come to the Eaſt India company.

I have already mentioned the eſtabliſhment of it by the great Colbert in 1664.

After his death, want of experience in thoſe who ſucceeded him, abuſe of adminiſtration, careleſſneſs in thoſe who carried on the company's buſineſs, competition between different companies, and, in ſhort, every obſtacle to new eſtabliſhments, concurred with the conſequences of the long and expenſive wars of Louis XIV. to render all commercial projects unſucceſsful; and all the expence beſtowed in eſtabliſhing theſe companies was in a manner loſt.

In 1710, the merchants of St. Malo undertook the Eaſt India trade. It languiſhed in their hands until 1719, and their importations were not ſufficient

cient to ſupply the demand of France for India goods: for this reaſon it was taken from them, and incorporated with Mr. Law's company of the Weſt Indies, in May 1719.

By this incorporation was eſtabliſhed the great *Company of the Indies*, which ſtill ſubſiſts in France: the only monument extant of the famous and unfortunate Law.

For the better underſtanding, therefore, what is to follow, let us attend to ſome hiſtorical and chronological anecdotes, relative to the wonderful operations of this Miſſiſippi bank, and company of the Indies. Theſe I ſhall ſet down according to the order of time in which they happened, and my reader may have recourſe to them as he goes along.

Without the help of this table, I ſhould be involved in a hiſtory of thoſe events, which, however amuſing it might be to ſome readers, would be quite inconſiſtent with the nature of this inquiry.

CHAP. XXVIII.

Chronological Anecdotes.

1709. A GENERAL coinage in France: the marc of ſtandard ſilver, worth two pounds ſterling, put at 40 livres denomination.

September 1713. The King reduces the denomination of the ſilver coin to 28 livres the marc, and the gold in proportion.

Theſe

Theſe reductions were made gradual and progreſſive, and were finally to take place no ſooner than the 2d of September 1715.

Auguſt 1715. The King declares, that in time to come, the coin was to remain ſtable at 28 livres the marc of fine ſilver.

September 1ſt, 1715. The King dies.

January 2, 1716. The Regent of France orders a new general coinage: raiſes the ſilver coin to 40 livres the marc, and cries down the old King's coin (though of the ſame weight, fineneſs, and denomination) 20 *per cent.*

May 1716. Law's bank eſtabliſhed: bank notes coined; and the old coin bought up at great diſcount.

September 6, 1717. Law's company of the Weſt eſtabliſhed.

September 4, 1718. He undertakes the farm of tobacco.

September 22, 1718. The firſt creation of actions of the company of the Weſt to the number of 200,000, ſubſcribed for in ſtate billets, at the rate of 500 livres *per* action.

January 1, 1719. The bank taken from Law, and veſted in the King. At this time the number of bank notes coined amounted to 59 millions of livres.

April 22, 1719. A new coinage of 51 millions of notes; in which the tenure of the note was changed, and the paper declared *monnoie fixe.*

May 1719. Law's company of the Weſt incorporated with the company of the Eaſt Indies; after which it was called the *Company of the Indies.*

June 1719. Created 50,000 new actions of the incorporated company; ſold for coin at 550 livres *per* action.

June 3, 1719. The mint made over to the company for 50 millions.

June 10, 1719. Coined of bank notes for 50 millions of livres.

July 1719. Created 50,000 actions as above, ſold, for notes, at 1000 livres *per* action.

July 25, 1719. Coined of bank notes for 240 millions.

Auguſt 1719. The company obtains the general farms: promiſes a dividend upon every action of 200 livres: agree to lend the King ſixteen hundred millions at 3 *per cent.* and have transferred to them 48 millions *per annum* for the intereſt of that ſum.

September 12, 1719. Coined of bank notes for 120 millions.

September 13, 1719. Created no leſs than 100,000 actions; price fixed at 5000 livres *per* action.

September 28, 1719. Created 100,000 more actions, price as the former, fixed at 5000 livres each.

October 2, 1719. Created 100,000 more actions, price as the former, at 5000 livres each.

October 4, 1719. Coined by the Regent's private order, not delivered to the company, 24,000 more actions, which completed the number of 624,000 actions; beyond which they never extended.

October 24, 1719. Coined of bank notes for 120 millions.

Decem-

December 29, 1719. Coined of bank notes for 129 millions.

January 1720. Coined of bank notes for 21 millions.

February 1720. Coined of bank notes for 279 millions.

February 22, 1720. Incorporation of the bank with the company of the Indies.

February 27, 1720. A prohibition by which no one was to have in his cuſtody more than 500 livres of coin.

March 5, 1720. The coin raiſed to 80 livres *per* marc.

March 11, 1720. The coin brought down to 65 livres *per* marc; and gold forbidden to be coined at the mint, or uſed in commerce.

March 1720. Coined of bank notes for 191 803 060 livres.

April 1720. Coined of bank notes for 792 474 720 livres.

May 1, 1720. Coined of bank notes for 642 395 130 livres.

May 21, 1720. The denomination of the paper diminiſhed by *arret* of council, which, in an inſtant, put an end to all credit, and made the bubble burſt.

At this period had been coined of bank notes to

	livres
the immenſe ſum of - -	2 696 400 000
Of which had been iſſued	2 235 083 590
Remained in the bank -	461 316 410

Dutot, Vol. I. p. 144. Vol. II. p. 207.

May 27, 1720. The *arret* of the 21ſt of this month recalled, and the paper reſtored to its full denomination.

May 29, 1720. The coin raiſed to 82 livres 10 ſols *per* marc.

June 3, 1720. 400,000 actions belonging to the Regent are burnt; and the 24,000 more, which were created October 4, 1719, ſuppreſſed; alſo 25 millions of the intereſt formerly granted to the company for their loan of 1600 millions, yielded up by the company, and conſtituted again upon the town-houſe of Paris.

October 10, 1720. All bank notes are ordered, by *arret* of this day, to be ſuppreſſed, if not brought to the bank before the 1ſt of December following, in order to be paid in manner therein ſpecified.

CHAP. XXIX.

Continuation of the Account of the Royal Bank of France, until the Time that the Company of the Indies promiſed a Dividend of 200 *Livres* per *Action.*

THESE things premiſed, what follows will, I hope, be eaſily underſtood.

As ſoon as the Regent of France perceived the wonderful effects produced by Law's bank, he immediately reſolved to make uſe of that engine, for clearing the King's revenue of a part of the unſupportable load of 80 millions of yearly intereſt, due, though indeed very irregularly paid, to the creditors.

It

It was to compaſs this end, that he beſtowed on Law the company of the Weſt Indies, and the farm of the tobacco.

To abſorb 100 millions of the moſt diſcredited articles of the King's debts, 200,000 actions or ſhares of this company were created. Theſe were rated at 500 livres each, and the ſubſcription for the actions was ordered to be paid in *billets d'état*, ſo much diſcredited by reaſon of the bad payment of the intereſt, that 500 livres, nominal value in theſe billets, would not have ſold upon change for above 160 or 170 livres. In the ſubſcription they were taken for the full value. As theſe actions became part of the company's ſtock, and as the intereſt of the billets was to be paid to the company by the King, this was effectually a loan from the company to the King of 100 millions at *4 per cent.*

The next ſtep was to pay the intereſt regularly to the company. Upon this the actions which had been bought for 170 livres, real value, mounted to par, that is, to 500 livres.

This was aſcribed to the wonderful operations of the bank; whereas it was wholly owing to the regular payment of the intereſt.

In May following 1719, the Eaſt India company was incorporated with the Weſt India company: and it was ſtipulated that the 200,000 actions formerly created, were to be entitled to a common ſhare of the profits of the joint trade.

But as the ſale of the firſt 200,000 actions had produced no liquid value which could be turned into trade (having been paid for in ſtate billets), a crea-

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tion of 50,000 new actions was made in June 1719, and the ſubſcription opened at 550 livres payable in effective coin.

The confidence of the public in Mr. Law, was at this time ſo great, that they might have ſold for much more: but it was judged expedient to limit the ſubſcriptions to this ſum; leaving the price of the actions to riſe in the market, according to demand, in favour of the original ſubſcribers.

This money amounting to 27 500 000 livres in coin, was to be employed in building of ſhips, and other preparations for carrying on the trade.

The hopes of the public were ſo much raiſed by the favourable appearance of a moſt lucrative trade, that more actions were greedily demanded.

Accordingly in a month after (July 1719) another creation was made of 50,000 actions; and the price of them fixed at 1000 livres.

It muſt be obſerved, that all actions delivered by the company of the Indies, originally contained an obligation on the company for no more that 4 *per cent.* upon the value of 500 livres, with a proportion of the profits on the trade; ſo that the riſe of the actions proceeded entirely from the hopes of thoſe great profits, and from the ſinking of the rate of intereſt; a conſequence of the plenty of money to be lent.

But beſides the trade, what raiſed their value at this time, was, that juſt before the laſt creation of actions, June 10, 1719, the King had made over the mint to the company for a conſideration of 50 millions of livres; and this opened a new branch of profit to every one intereſted.

The

The ſale of the laſt coined actions taking place at 1000 livres each, ſo great a riſe ſeems to have engaged the Regent to extend his views much farther than ever. To ſay that he foreſaw what was to happen, would be doing him the greateſt injuſtice. He foreſaw it not, moſt certainly; for no man could foreſee ſuch complicated events. But had he conducted himſelf upon ſolid principles; or by the rules which, we now ſay, common honeſty required, he certainly never would have countenanced the ſubſequent operation.

The fourth creation of actions was in the beginning of September 1719.

In the interval between the third and the fourth creation, the Regent made over the general farms to the company, who paid three millions and a half advanced rent for them. And the company obliged themſelves to lend the King (including the 100 millions already lent upon the firſt creation of actions) the immenſe ſum of 1600 millions at 3 *per cent.* that is, for 48 millions intereſt. Now it is very plain, that before the month of September 1719, it was impoſſible they could lend the King ſo great a ſum.

They had already lent him, in September 1718, 100 millions, by taking the *billets d'état* for the ſubſcription of the firſt creation of actions; the ſecond creation had produced coin, laid out in mercantile preparations; and the third creation of actions, at the ſtandard value, was worth no more than 50 millions of livres: this was their whole ſtock. Where then could they find 1500 millions more to lend?

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I therefore conclude, that at this time, the ſcheme which I am now to unfold, muſt have more or leſs, taken place between the Regent and this great company.

The public was abundantly perſuaded of the prodigious profits of the company, before they got poſſeſſion of the general farms. No ſooner had they got this new ſource of riches into their hands, than they promiſed a dividend of no leſs than 200 livres on every action, which was ten times more than was divided on them when at firſt created.

The conſequence of this was, that (ſuppoſing the dividend to have been permanent and ſecure) an action *then* became as well worth 5000 livres as at *firſt* it was worth 500 livres; accordingly to 5000 did it riſe, upon the promiſe of this new dividend.

But what could be the motive of the company to promiſe this dividend, three months only after their eſtabliſhment? Surely, not the profits upon a trade which was not as yet opened. Surely, not the profits upon the King's farms; for theſe profits it was greatly their intereſt to conceal.

Their views lay deeper. The Regent perceived that the ſpirit of the nation was too much inflamed, to ſuffer people to enter into an examination of the wonderful phænomena ariſing from the eſtabliſhment of the bank, and company of the Indies. If the company promiſed 200 livres dividend, the public concluded that their profits would enable them to pay it; and really in this particular the public might be excuſed.

The

The plan, therefore, concerted between the Regent and the company ſeems to have been, to raiſe the actions to this great value, in order to keep up a greater quantity of notes in circulation.

This was to be accompliſhed, firſt by the Regent's purchaſing the actions himſelf from the company; ſecondly, by borrowing back the notes he had paid for them, in order to fill up the loan which the company had agreed to make; thirdly, to pay off all the public creditors with thoſe notes ſo borrowed back; and fourthly, when the nation was once filled with bank paper, to ſell at an adequate price, the actions he had purchaſed from the company, to withdraw his own paper, and then to deſtroy it.

By this operation the whole debts of France were to be turned into actions; and the company was to become the public debtor, inſtead of the King, who would have no more to pay but 48 millions of intereſt to the company.

By this operation alſo, the Regent was to withdraw all the bank notes which he had iſſued for no other value but for the payment of debts; which notes were demandable at the bank: and for the future, he was to iſſue no more (I ſuppoſe) but for value preſerved.

CHAP. XXX.

Inquiry into the Motives of the Duke of Orleans in concerting the Plan of the Miſſiſippi.

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NOW if we examine the motives of the Regent, with regard to this plan, and ſuppoſe that he foreſaw all that was to happen in conſequence of it; and if we alſo ſuppoſe that he really believed that the company never could be in a ſituation to make good the dividend of 200 livres, which they had promiſed upon their actions; in a word, if we put the worſt interpretation upon all his actions, we muſt conclude that the whole was a moſt conſummate piece of knavery.

But as this does not appear evidently, either by the ſucceeding operations, or ultimate conſequences of this ſcheme, I am loth to aſcribe, to that great man, a ſentiment ſo oppoſite to that which animated him, on his entrance upon the regency, when he nobly rejected the plan propoſed to him for expunging the debts altogether.

I may therefore ſuppoſe, that he might believe that the company to whom he had given the mint, the tobacco, the farms, and the trade of France, and to whom he ſoon after gave the general receipt of all the revenue, might by theſe means be enabled to make good their engagements to the public. I ſay, this *may be ſuppoſed;* in which caſe juſtice was to be done to every one; and the King's debts were

to be reduced to 48 millions a year, instead of 80 millions.

That this is a supposeable case, I gather from Dutot, who gives us an enumeration of the revenue of the company, Vol. I. p. 162. as follows:

Revenue of the Company of the Indies.

Interest paid to the company *per annum* - - - - -	48 000 000
Profits upon the general farms	15 000 000
Ditto upon the general receipt of other taxes - - - -	1 500 000
Ditto upon the tobacco - -	2 000 000
Ditto upon the mint - - -	4 000 000
Ditto upon their trade - -	10 000 000
In all of yearly income - -	80 500 000

Now if we suppose the interest of money at 3 *per cent.* this sum would answer to the capital of 2664 millions, which was more than all the debts of the kingdom, for which they were to become answerable.

Upon this view of the matter, I say, *it was possible*, that the Regent might form this plan, without any intention to defraud the creditors; and more I do not pretend to affirm.

I have said that he purposely made the company raise the price of their actions, in order to draw more notes into circulation.

To this it may be objected, that he might as well have paid off the creditors with bank notes, without going this round-about way to work; and have left them to purchase the actions directly from the company.

I answer,

I anſwer, that ſuch an operation would have appeared too barefaced, and might have endangered the credit of the bank. Whereas in buying the actions, which were ſought after by every body, the ſtate appeared deſirous only of acquiring a ſhare of the vaſt profits to be made by the company. Farther:

As the company appeared willing to accept of bank notes from the ſtate, in payment of their actions, this manœuvre gave an additional credit both to the actions, and to the notes; a thing very neceſſary to be attended to, in a ſcheme which was calculated to bring about a total transformation of the ſecurity for the King's debts.

I muſt however obſerve, that at the period concerning which we are now ſpeaking (viz. at the time the company promiſed the dividend of 200 livres *per* action) the plan we have been deſcribing could not have been carried into execution.

There were at that time no more than 400,000 actions created, rated at 777 millions: of theſe were already diſpoſed of at leaſt 250,000, to wit, the original 200,000; and the ſecond creation of 50,000, ſold for coin. Beſides, there were then only coined in bank notes for 520 millions. So there was not a poſſibility of executing the plan I have mentioned, as matters then ſtood.

It is from the ſubſequent operations of the ſyſtem, that it appears evident that this and this only could be the intention.

We ſhall ſee how the number of actions were multiplied, without any other view than to make the

the public imagine, that the funds neceſſary for carrying on the trade of the company were immenſe.

The number of the actions ſold to the public was very inconſiderable, compared with thoſe ſold to the Regent, and found in his hands at the blowing up of the ſyſtem.

Beſides, at the period when the number of actions was carried to the utmoſt, viz. to 624,000, the bank notes bore no proportion to their value; for, on the 4th of October 1719, when the laſt creation of actions was made, the bank notes did not exceed the ſum above ſpecified, to wit, 520 millions.

But in tracing the progreſs of the ſyſtem upon the preceding table, we perceive, that after the actions were once carried to their full number (October 4th 1719), the coining of bank notes went on at a moſt prodigious rate: ſo much that by the month of May 1720, they were increaſed from 520 millions, to above 2696 millions; and on the 21ſt of that month, all this ſum, except 461 millions, were found in circulation.

Farther: We ſhall ſee, that when the Regent and the company made out their accompts, there were found in the Regent's hands no leſs than 400,000 actions, which were burnt; and in conſequence of this 25 millions of intereſt upon the ſum of money due by the King to the company, were extinguiſhed.

Theſe facts prove beyond a doubt, that theſe 400,000 actions had been bought with the notes coined

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coined poſterior to the 4th of October 1719; otherwiſe the actions could not have become the property of the ſtate.

Beſides, it was acknowledged publicly, that the notes were coined for this purpoſe. (See Dutot, Vol. I. p. 144.) In the next place, it is evident, that the notes which had been given by the ſtate in payment for theſe actions, muſt have been paid back to the ſtate, by the company, in order to fill up the loan of 1600 millions of livres; which the company never could have otherwiſe lent to the King. And in the laſt place, it is certain that the public debts were paid off with theſe notes, ſo borrowed back from the company: becauſe we ſhall find the notes in circulation at the blowing up of the ſyſtem, on the 21ſt of May 1720; and we ſhall ſee how they were paid and withdrawn in October following.

This detail is, I confeſs, a little long, and perhaps too minute: but I thought it neceſſary to prove the ſolidity of my conjectures concerning the Regent's motives in concerting this plan; which no French author, that ever I ſaw, has pretended to unfold, except by hints too dark to be eaſily comprehended.

What is now to follow, will ſtill ſet my conjectures in a fairer light. We have ſeen already from the table, with what rapidity the creation of actions went on from the 13th of September to the 4th of October 1719. No leſs than 324,000 were created in this interval.

Yet Dutot, vol. ii. p. 169, *et ſeq.* poſitively ſays, that on the 4th of October, the company had not ſold

ſold for more than 182,500,000 livres of their actions. Now the total value, as they were rated when created, extended to 1,797,500,000; ſo there was little more than one tenth part of the value ſold off.

Why therefore create ſuch immenſe quantities of actions, and ſo far beyond the demand for them, but to throw duſt in the eyes of the public; to keep up the ſpirit of infatuation; and to pave the way for the final execution of the plan?

The actions being brought, by four ſucceſſive creations, of the 13th and 28th of September, the 2d and 4th of October, to their full number, the company, during this interval, obtained the general receipt of the whole revenue. Thus, ſays Dutot, vol. ii. p. 197. the company was intruſted with the whole revenue, debts and expences of the ſtate, and all unneceſſary charge was avoided in collecting and adminiſtering it.

In the month of November 1719, the credit of the bank, and of the company, was ſo great, that the actions roſe to 10,000 livres. Notwithſtanding, ſays Dutot, vol. ii. p. 198. that the company did what they could to keep down the price, by throwing into the market, in one week, for no leſs than 30 millions. He aſſigns ſeven different reaſons for this, which, all put together, are not worth one; to wit, that the Regent was ready to buy up every one that lay upon hand, in concert with the company.

If the company had been inclined to keep down the price of the actions, they had nothing more to do than to deliver part of the vaſt number they ſtill had

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had unfold, at the ſtandard value of 5000 livres, at which they were rated when created; and this would have effectually prevented their riſing to 10,000 livres.

But it was the intereſt of the Regent, who was at that time well provided with actions, to ſtock-job, and to buy with one hand, while he was ſelling with the other: theſe operations were then as well known in the ſtreet called Quinquempoix, as now in Change-alley.

As a proof of the juſtneſs of my allegation, that the Regent was doing all he could to raiſe the price of the actions, Dutot informs us, in the place above cited, that the bank, at this very time, was lending money, upon the ſecurity of actions, at 2 *per cent.* Since this was the caſe, how was it poſſible that an action, with 200 livres dividend, ſhould ſell for leſs than 10,000 livres, which is the capital correſponding to 200 livres, at 2 *per cent.*?

This is evident; and were it neceſſary, it may be proved to demonſtration, that the riſe of the actions was merely the conſequence of a political contrivance.

But *if* money, at that time, came to bear no more than 2 *per cent.* and if the company were able to afford 200 livres upon the action; where was the iniquity of raiſing the actions to 10,000 livres? I confeſs I can ſee none, nor do I perceive either the impoſſibility or improbability of the two poſtulata, had matters been rightly conducted.

As to money's falling to 2 *per cent.* any man of 20 years old may expect to ſee it, without a *Miſſiſippi:* and as for the payment of the dividends, there

there never were in the hands of the public, nor ever could be, had all the creditors of the 2000 millions of public debts inveſted in actions at 10,000 a-piece, one half of 624,000 actions diſpoſed of: conſequently, the 200 livres dividend would not have amounted, upon 312,000 actions, to more than 62,400,000 livres; and the revenue of the company, as we have ſeen, exceeded 80 millions a year.

This ſtill tends to juſtify the Regent from the groſs imputation of fraud, in the conduct of the Miſſiſippi.

But what ſhould ſtill more exculpate this prince, in the eyes of every impartial man who examines the whole conduct of the affair, is the uniform ſentiments of the moſt intelligent men in France concerning the doctrine of money and credit.

When we find Dutot, who wrote againſt the arbitrary change of the coin; and De Melon, the Regent's man of confidence and ſecretary, who wrote in favour of it, two perſons conſidered in France as moſt able financiers, both agreeing, that during the operations of the ſyſtem, money never was to be conſidered but according to denominations; that there was nothing againſt good policy in changing the value of theſe denominations; and that paper-money, whether iſſued for value, or for no value, or for the payment of debts, was always good, *provided there was coin enough in France* for the changing of it; and this, although the coin itſelf did not belong to the debtors in the paper: when theſe principles, I ſay, were adopted by the men of penetration in France; when we find them publiſhed

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liſhed in their writings, many years after the Regent's death, as maxims of what they call their *credit public*; I think it would be the higheſt injuſtice to load the Duke of Orleans with the groſs imputation of knavery, in the Miſſiſippi ſcheme.

Law no doubt ſaw its tendency. But Law ſaw alſo, that credit ſupported itſelf on thoſe occaſions, where it ſtood on the moſt tickliſh bottom: he ſaw bank notes to the amount of more than two thouſand millions, iſſued in payment of the King's debts, without occaſioning any run upon the bank, or without ſuggeſting an idea to the public that the bank ſhould naturally have had ſome fund, to make them good: he ſaw people, who were in poſſeſſion of a value in paper exceeding 6000 millions of livres, 60 to the marc, (Dutot, vol. i. p. 144.) look calm and unconcerned, when, in one day, the coin was raiſed in its denomination to 80 livres in the marc; by which operation, the 6000 millions of the day before loſt 25 *per cent.* of their real value. He ſaw that this operation did not in the leaſt affect the credit of the bank paper; becauſe people minded nothing but denominations.

He ſaw farther, that by the operation propoſed, the whole debt of the King would be transferred upon the company. He ſaw that theſe debts, being turned into bank notes, would not be ſufficient to buy above 200,000 actions, at the value they then ſold for. He knew that the Regent, who had bought 400,000 of theſe actions at 5000 livres a-piece, that is, at half price, would remain in poſſeſſion of 200,000 actions, after ſelling enough to draw back the whole of the bank notes iſſued for the

the payment of the debts; and he ſaw that the company of the Indies had a yearly income of above 80 millions to enable them to make good their engagements: beſides, he ſaw a power in the King to raiſe the denominations of the coin at will, without ſhocking the ideas of his people; by which means he might have paid the 2000 millions with one louis d'or. Put all theſe circumſtances together, and I can imagine that Law's brain was turned; that he had loſt ſight of all his principles; and that he might believe that his former common ſenſe was, at that time, become abſolute nonſenſe *in France.*

That common ſenſe may become nonſenſe, is a thing by no means peculiar to France, but quite peculiar to *man.*

I ſhall offer but one argument more, to *prove* that the Duke of Orleans, and Law, could have no premeditated deſign of defrauding the public, by theſe wonderful operations; which is, that to ſuppoſe the contrary, would be to allow them an infinite ſuperiority of underſtanding over all the reſt of Europe.

Until the bubble burſted nobody *could* know where it was to end: every thing appeared very extraordinary indeed; and the fatal cataſtrophe might have been expected from the greatneſs of the undertaking, merely. But had there been any roguery in the plan itſelf, it muſt have appeared palpable long before; becauſe the whole of the operations in which only *it could* conſiſt, were public.

All the notes were created by public act of council; ſo were the actions: the loan of 1600 millions to the King, by the company, was a public

deed; ſo was the alienation in their favour, of 48 millions for the intereſt of this ſum. Notes were avowedly coined in order to purchaſe actions, (Dutot, Vol. I. p. 144.) the creditors were avowedly paid with bank notes, at a time when it was forbidden to have 500 livres in coin in any perſon's cuſtody; conſequently, it was alſo forbidden to demand coin for bank notes.

Now all this was going on in the months of February, March, April, and the beginning of May 1720; without any ſuſpicion of any failure of credit. The coin alſo was ſometimes raiſed, ſometimes diminiſhed in its value, and ſtill the fabric ſtood firm.

Under theſe circumſtances, to ſay there was knavery, is to ſay that all the world were abſolutely blockheads, except the Regent and John Law: and to this opinion I never can ſubſcribe.

It may ſeem ſurpriſing that I ſhould take ſo much pains to juſtify the two principal conductors of this ſcheme. My intention is not ſo much to do juſtice to their reputation, which has been groſsly calumniated by many, who have written the hiſtory of thoſe times, as to prove, that an ill-concerted ſyſtem of credit may bring ruin on a nation, although fraud be out of the queſtion: and if a nation be plunged into all the calamities which a public bankruptcy can occaſion, it is but a ſmall conſolation to be aſſured of the good intentions of thoſe who were the cauſe of it.

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CHAP. XXXI.

Continuation of the Account of the Royal Bank of France, until the total Bankruptcy on the 21ſt of May 1720.

CHAP. XXXI.

I NOW reſume the thread of my ſtory. We left off at that period when the credit of the company and of the bank was in all its glory (November 1719); the actions ſelling at 10,000 livres, dividend 200 livres a year *per* action, and the bank lending at 2 *per cent.*: all this was quite conſiſtent with the then rate of money.

In this ſtate did matters continue until the 22d of February 1720, when the bank was incorporated with the company of the Indies.

The King ſtill continued guarantee of all the bank notes; none were to be coined but by his authority: and the comptroller-general for the time being, was to have, at all times, together with the *Prevot des marchands* of Paris, ready acceſs to inſpect the books of the bank.

As the intention, at the time of the incorporation, was to coin a very great quantity of notes, in order to buy up the actions, and to borrow back the money, in order to pay off the creditors, it was proper to gather together as much coin as poſſible, to guard againſt a run upon the bank: for which purpoſe the famous *Arret de Conſeil*, of the 27th of

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February 1720, was publiſhed, forbidding any perſon to keep by them more than 500 livres in coin.

This was plainly annulling the obligation in the bank paper, *to pay to the bearer on demand the ſum ſpecified, in ſilver coin.*

Was it not very natural, that ſuch an *arret* ſhould have, at once, put an end to the credit of the bank? No ſuch thing however happened. The credit remained ſolid after this as before; and nobody minded gold or ſilver any more than if the denomination in their paper had had no relation to theſe metals. Accordingly, many, who had coin and confidence, brought it in, and were glad to get paper for it.

The coin being collected in about a week's time, another *Arret de Conſeil*, of the 5th of March, was iſſued, raiſing the denomination from 60 livres to 80 livres the marc. Thus, I ſuppoſe, the coin which the week before had been taken in at 60 livres, was paid away at 80: and the bank gained $33\frac{1}{3}$ *per cent.* upon this operation. Did this hurt the credit of the bank paper? Not in the leaſt.

As ſoon as the coin was paid away, which was not a long operation, for it was over in leſs than a week; another *Arret de Conſeil*, of the 11th of the ſame month of March, came out, declaring that, by the firſt of April, the coin was to be again reduced to 70 livres the marc, and on the firſt of May to 65 livres. Upon this, the coin, which had been paid away the week before, came pouring into the bank, for fear of the diminution which was to take

take place the firſt of April. In this period of about three weeks, the bank received in coin about 44 millions of livres; and thoſe who brought it in thought they were well rid of it.

It was during the months of February, March, and April 1720, that the great operations of the ſyſtem were carried on.

We may ſee by the chronological anecdotes in the 28th chapter, what prodigious ſums of bank notes were coined, and iſſued during that time. It was during this period alſo, that a final concluſion was put to the reimburſing all the public creditors with bank notes: in conſequence of which payment, the former ſecurities granted to them by the King, under the authority of the parliament of Paris, were withdrawn and annulled.

Here then we have conducted this ſcheme to the laſt period.

There remained only one ſtep to be made to conclude the operation; to wit, the ſale of the actions, which the Regent had in his cuſtody to the number of 400,000.

Theſe were to be ſold to the public, who were at this time in poſſeſſion of bank notes to the value of 2 235 083 590 livres. See the foregoing table.

Had the ſale of the actions taken place, the notes would all have returned to the bank, and there have been deſtroyed: by which operation, the company would have become debtor to the public for the dividends of all the actions in *their* hands, and to the King for all thoſe which might have remained in the hands of the Regent. Theſe proportions we cannot bring to any calculation, as it would have depended entirely on the price of the actions dur-

ing ſo great an operation; and on the private conventions between the parties, the Regent and the company.

But alas! all this is a vain ſpeculation. The ſyſtem, which hitherto had ſtood its ground in ſpite of the moſt violent ſhocks, was now to tumble into ruin from a childiſh whim.

In order to ſet this ſtroke of political arithmetic in the moſt ludicrous light poſſible, I muſt do it in Dutot's own words, uttered with a ſore heart and in ſober ſadneſs.

He had ſaid before, that the coin of France was equal to 1200 millions of livres at 60 livres the marc. This marc was now at 65 livres (in May 1720, as above), ſo the *numerary* value, as he calls it, (that is the denomination,) of the coin was now riſen to 1 300 000 000; but the bank notes circulating in the month of May were carried to 2 696 400 000; then he adds,

"The 1300 millions of coin *which were in* "*France*, were very far from 2696 millions of "notes. In that caſe the ſum of notes was to the "ſum of coin, nearly as $2\frac{2}{27}$ are to 1; that is to ſay, "that 207 livres 8 ſols $1\frac{7}{9}$ denier in notes, was "only worth 100 livres in coin; or otherwiſe, "that a bank note of 100 livres was only "worth 48 livres 4 ſols 5 deniers in coin, or "thereabouts." Would not any mortal conclude from this calculation of Dutot's, that the whole ſum of 1300 millions had been in the bank, as the only fund for the payment of the paper?

This is a laboured equation, and from it we have a ſpecimen of this gentleman's method of calculating the value of bank paper: but let us hear him out.

"This

"This prodigious quantity of money in circulation," says he, "had raised the price of every "thing excessively: so *in order to bring down* "*prices*, it was judged more expedient to diminish "the denomination of the bank notes, than to raise "the denomination of the coin; because *that* "diminished the quantity of money, *this* aug- "mented it."

This was the grand point under deliberation, before the famous *arret* of the 21st of May was given, viz. whether it were better to raise the value of the coin, *which did not belong to the bank, but to the French nation*, to double the denomination it bore at this time, that is, to 130 livres the marc, by which means the 1300 millions would have made 2600 millions, or to reduce the 2600 millions of bank notes to one half, that is, to 1300 millions, the total denomination of the coin.

To some people it would have appeared more rational to reject both the alternatives, and to allow matters to stand as they were, as long as they would stand, at least until the actions had been all sold off; but this was not thought proper. After a most learned deliberation, it was resolved to reduce to one half, the denomination of all the paper of France, bank notes as well as actions, instead of raising the denomination of the coin; and this because the prices of commodities were supposed to be in proportion to the quantity of the denominations of money.

The *arret* was no sooner published than the whole paper fabric fell to nothing. The day following,

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lowing, the 22d of May, a man might have ſtarved with a hundred millions of paper in his pocket.

This was a cataſtrophe the like of which, I believe, never happened: it is ſo ridiculous that it is a ſubject fit only for a farce.

Here Dutot's lamentations and regrets are inimitable.

In one place he ſays, "Credit was too far "ſtretched to be ſolid. It was therefore proper to "ſacrifice one part, to give a ſolidity to the other. "Even this was done; but the conſequences did "not correſpond to the intention. Confidence, "which is the ſoul of credit, eclipſed itſelf, and the "loſs of the bank note, drew on the loſs of the "action."

In another place he ſays, "This *arret* of the 21ſt "of May, which, according to ſome *bleſſoit l'équité*," (a very mild expreſſion!) "deſtroyed all confi-"dence in the public; becauſe the King had dimi-"niſhed one half of that paper money (the bank "notes) which had been declared fixed."

Is it not a thouſand pities that confidence ſhould have diſappeared upon ſo ſlight a wound given to equity, only in the opinion of ſome? For Dutot thought the operation perfectly conſiſtent with the principles of public credit.

He tells us, that a letter was written to calm the minds of the people, and to ſhew them how abſurd it was, to allow the paper to be fixed, while the coin varied: but, ſays he, "as there was a revenue at-"tached to the action, the value of that paper did "not depend ſo much upon the capital, as on the

"ſum

"ſum of the intereſt." Very juſt. But were the dividends to ſtand at 200 livres, without ſuffering the ſame diminution as the action? And how was confidence to ſubſiſt in a country, where the denominations of both the paper and the coin were at the diſpoſal of a miniſter?

The diminution upon the paper, by the *arret* of the 21ſt of May, raiſed a moſt terrible clamour; and Law became the execration of France, inſtead of being conſidered as its ſaviour. He was baniſhed, and reduced to beggary the ſame day.

What profit could either the Regent, or Law, have reaped from the ſucceſs of ſuch an operation? Had the coin been raiſed to 130 livres the marc, no hurt would probably have enſued, and the ſame effect would have been produced.

Had matters been left without any change at all, no bad conſequences would have followed: theſe exiſted only in the heads of the French theoriſts. There was, indeed, twice as much money in bank notes as in coin, in the whole kingdom of France: and what then?

When the Regent ſaw the fatal effects of his *arret* of the 21ſt of May, he revoked it on the 27th of the ſame month. On the 29th, he raiſed the coin to 82 livres 10 ſols in the marc, and re-eſtabliſhed all the paper at its former denomination: but, as Dutot has ſaid, confidence was gone, and was no more to be recalled. Nothing ſurpriſes me, but that ſhe lived ſo long under ſuch rough management.

Dutot, in talking of this augmentation of the coin, on the 29th of May, to 82 livres 10 ſols, ſays, "This

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"This operation was conſiſtent with the principles "of public credit, and advantageous. They would "have done better had they puſhed the augmenta- "tion to 135 livres the marc; which would have "made the ſpecie of France equal to the ſum of "bank notes." Theſe are his words, p. 165.

Are not theſe very ſenſible principles, coming from a man who has written a book, which indeed few people can underſtand, in order to prove the great hurt of tampering with the coin of France?

CHAP. XXXII.

Concluſion of the Miſſiſippi Scheme.

THE Regent, perſuaded that the blunder of the 21ſt of May was abſolutely irreparable, fell to work next to clear accompts with the company.

He owed them 1600 millions capital, and 48 millions a year of intereſt upon it.

On the other hand, he had in his poſſeſſion no leſs than 400,000 actions, which at 200 livres dividend, which the company was obliged to pay, amounted to 80 millions a year.

How the Regent and the company ſettled matters I do not know preciſely. This, however, is certain, that by the *arret* of the 3d of June 1720, the number of 400 000 actions, belonging to the Regent, were burnt; and 24 000 more, which had been created by his particular order, the 4th of October 1719, and never delivered to the company, were ſuppreſſed.

On

On the other hand, the company ceded 25 millions a year, of the 48 millions which had been transferred to them.

This ſum was conſtituted anew upon the town-houſe of Paris, as a fund to be ſubſcribed for by the proprietors of bank notes, at the rate of $2\frac{1}{2}$ *per cent.* or as the French call it at the 40th penny. (Dutot, p. 168.) In conſequence of this, 530 millions of bank notes were ſubſcribed for, and paid in, in the month of June 1720.

After the deſtruction of the 400,000 actions, the credit of the bank notes languiſhed until the 10th of October 1720.

The object for which they were created was now gone. The whole ſcheme of transferring the King's debts upon the company vaniſhed in the conflagration of the actions. What was then to be done?

The bank was at an end: 2235 millions of diſcredited bank notes in circulation, and a ſmall ſum of coin to make them good, was a ſituation which no authority could long ſupport.

The reſolution then was taken to put a final concluſion to this great affair; to bid a long farewel to credit and confidence; and to return to the old ſyſtem of rents upon the town-houſe of Paris; and of coming at money in the beſt way they could.

We ſhall now ſee how this was accompliſhed; and thereby form a pretty good gueſs at the extent of the fraud committed, with reſpect to the creditors of France; not ſo much, I think, from any intrinſic defect in the Miſſiſippi ſcheme, as from the diſtreſs the nation was thrown into, by the ignorance

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norance of thoſe who over-ruled John Law in conducting it.

We have ſeen how the actions were reduced to the number of 200,000; we muſt now give an account of the deplorable fate of the bank notes.

By the *arret* of 10th of October 1720, all bank notes were entirely ſuppreſſed; and it was declared, that after the 1ſt of December following, they were to have no courſe whatſoever.

Here follows the arrangement of this great affair, viz. the liquidation of 2 696 400 000 livres in bank notes, as regulated by this *arret*.

Firſt, Of the above total of notes coined, there remained in the bank at this time, for	707 327 460 livres.
Secondly, Subſcribed for at 2½ *per cent.* in June 1720	530 000 000
Thirdly, Carried to the bank by private people as a fund of credit there - -	200 000 000
Fourthly, Paid in coin by the bank - - -	90 000 000
	1 527 327 460

This ſum of notes was ordered to be burnt by the *arret* of the 10th of October.

The remainder ſtill in the hands of the public, ſays the *arret*, was to the amount of 1 169 720 540 livres, and the King declares, that the holders of them might employ them as follows:

Firſt, In purchaſing the remainder of the ſubſcription of 25 millions of rents on the town-houſe

houſe of Paris at $2\frac{1}{2}$ *per cent. inde* 470 000 000 livres.

Secondly, In purchaſing a farther ſum conſtituted on the town-houſe of Paris, of 8 millions of perpetual annuities, at the rate of 2 *per cent.* or at the 50th penny, - - - 400 000 000

Thirdly, In purchaſing a farther ſum conſtituted on the town-houſe of Paris, of 8 millions of life-rent annuities, at 4 *per cent.* or at the twenty-fifth penny - - - - 100 000 000

Theſe ſums amounted to	970 000 000
Sum above - -	1 527 327 460
Together - -	2 497 327 460

There ſtill remained outſtanding about 200 millions of bank notes.

Theſe were ordered to be diſpoſed of in ſeveral different ways, mentioned in the *arret* of the 10th of October; which it would be needleſs to mention, as it would require a long explanation to make the thing underſtood: let it ſuffice that there was an outlet provided for them, which brought in between 2 and 3 *per cent.*

Thus we ſee the concluſion of the whole affair.

At the beginning, the King's debts ſtood at 2000 millions capital, and 80 millions intereſt very ill paid.

At

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At the end of the ſcheme there had been coined of notes about - - - 2696 millions.

Of which in the bank,

October 10, 1720 , 707 mil.

And paid in coin - 90

This ſubtracted - - - 797 millions.

There remained outſtanding in bank notes * - - - - 1899 millions.

Add to this 100 millions ſtill due by the King to the company for the *billets d'état* withdrawn in conſtituting the firſt 200,000 actions which ſtill ſubſiſted, and for which the company was to receive 5 *per cent.* - - - 100 millions.

So the capital of the King's debts remained at - - - 1999 millions.

Balance gained by the whole operation - - - - - 1 million.

Conſequently there was little or no fraud as to the capital - 2000 millions.

Let us next examine the ſtate of intereſt.

* There are, however, in France at this day, many perſons who are ſtill in poſſeſſion of large ſums of thoſe notes. This makes ſome people believe, that all the paper was called down without any equivalent given. The reaſon of thoſe notes remaining, is, that either the proprietors neglected the occaſion offered by the *arret* of the 10th of October, or that they were in hopes that perhaps the bank might again recover its credit. They were miſtaken, and the notes are loſt.

The

The intereſt at the laſt was,

Firſt, Of rents conſtituted in June 1720, on the town-houſe, at $2\frac{1}{2}$ *per cent.* or at the 40th penny - - - - - - 25 millions.

Secondly, Ditto of the tenth of October 1720, at 2 *per cent.* or at the 50th penny - - 8 millions.

Thirdly, Ditto at ditto upon lives at 4 *per cent.* or at the 25th penny - - - - - - 4 millions.

Fourthly, Due to the company upon the original ſtock of 100 millions ſtill paid them at this day at 5 *per cent.* - - 5 millions.

Fifthly, For the 200 millions of credit at the bank, ſuppoſe at the rate of 3 *per cent.* - - 6 millions.

Sixthly, For the laſt 200 millions provided for in different ways, ſuppoſe at $2\frac{1}{2}$ *per cent.* - 5 millions.

Seventhly, Allowed to the company to indemnify them for the loſs they ſuſtained by theſe arbitrary ways of reckoning with them, 80 millions at 5 *per cent.* ſtill paid them. - - - 4 millions.

57 millions.

The intereſt at firſt was 80 millions
The intereſt at laſt was 57 millions

Defrauded by the ſcheme 23 millions a year.

This is (as near as I can gueſs at it) the ſtate of the French bankruptcy in 1720.

The creditors were robbed of 23 millions a year. I call it *robbed*, becauſe the intereſt due to them was diminiſhed by that ſum, without their conſent, and in conſequence of the moſt arbitrary proceedings; whereas, had the ſyſtem been conducted with ability, the whole of the debts would have been brought to an intereſt of 48 millions, inſtead of 57, and nobody would have complained of injuſtice.

Money likewiſe might have been brought to 2 *per cent.* The 1600 millions borrowed of the company at 3 *per cent.* would then have been reduced to two; which would have brought the 48 millions of intereſt, upon the whole, to 32 millions: and France, from being reduced to beggary by the King's wars, would have become the moſt flouriſhing ſtate in Europe.

Let us next gueſs at what may reaſonably be ſuppoſed to have been the largeſt ſum of coin ever collected in this bank.

I imagine that the far greater part of all the coin ſuppoſed to be in France during the Miſſiſippi ſcheme, remained in private hands, without ever coming into the bank. My reaſon for being of this opinion is,

Law never could have had more than the value of his original ſtock, and all the value of notes he had in circulation.

It is abſurd to imagine he ever ſhould have had the half, or near it; but let me ſuppoſe it.

The

The bank ſtock was - -	6 millions.
The notes he iſſued were - -	59 millions.
In all - - - -	65 millions.

This is a trifle compared with 1200 millions.

Next for the united bank. The time at which the greateſt quantity of coin was collected, muſt have been when all credit failed, that is, on the 21ſt of May 1720.

At this time coin was taken out of commerce: every one was forbid to have above 500 livres in poſſeſſion; and every operation had been uſed to call it in.

At this time, we know that all the notes coined were iſſued, except to the value of 461 316 410 livres.

Now we have ſeen that on the 10th of October following, there were in the bank to the value of 707 327 460 livres.

Let me, therefore, ſuppoſe, that from the 21ſt of May to the 10th of October, the bank paid away in coin, the difference between theſe two ſums; to wit, - - - - - 246 011 050 livres.

Add to that ſum what was then in the bank, viz. - - 90 000 000

Sum - - - - - 336 011 050

This ſum is all we poſſibly can ſuppoſe to have been in the bank on the 21ſt of May, when credit failed.

We muſt reckon this ſum of coin at 82 livres 10 ſols *per* marc, the then value; which makes about 8 146 600 *l.* ſterling. A large ſum, no doubt; but

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little more than $\frac{1}{5}$ of 40 millions ſterling, the value of 1200 millions of livres, at 60 to the marc, as has been ſaid. Conſequently, either theſe 40 millions ſterling were not then in France, or the greateſt part of the ſum had remained in private hands during this whole operation.

In this light I ſee the Miſſiſippi ſcheme. I may, no doubt, be miſtaken in many things: the lights, or rather the glimmerings, by which I have been conducted through this inquiry, muſt plead my excuſe.

But it is not facts ſo much as principles, I have been inveſtigating through this whole diſquiſition; and the imperfect account I have been able to give of the *former*, will at leaſt point out, I hope, the notions which the French nation, at that time, had of the *latter*. If the contraſt between French principles, and thoſe I have laid down, tend to caſt any light upon the ſubject of paper credit in general, my end is accompliſhed: if they ever prove of uſe to mankind, I ſhall not think my labour loſt.

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CHAP. XXXIII.

Why Credit fell, and how it might have been ſupported.

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I SHALL now make a few general obſervations upon the total and ſudden fall of credit in France in May 1720: and I ſhall ſuggeſt the means by which, I think, it might have been ſuſtained, even after all the preceding miſmanagement.

Was it any wonder that the French ſhould be aſtoniſhed at this prodigious *revolution*, at this immenſe value of paper on the 21ſt of May, and at the total diſcredit of every bit of it the very day following?

If there had been a value, ſaid they, what became of it? If there never was any value, how could a nation be ſo deceived? This phænomenon has puzzled many a head; but the nature and principles of credit furniſh an eaſy ſolution of it.

In deducing the principles of credit, we have ſhewn *that a permanent and well ſecured fund of intereſt is always equal in value to a correſponding capital.*

The difference between a *permanent* and *well ſecured fund*, and a *precarious* and *ill ſecured fund*, conſiſts in this, that the firſt never can diſappear, and the other may.

Now the fund, in this caſe, was at firſt *real* and did exiſt; but it was rendered precarious, by a

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blundering adminiſtration: then credit failed, and in that convulſion, the fund of intereſt was fraudulently diminiſhed by an act of power.

Had the true principles of credit been underſtood in France, the bank notes and actions might have been ſupported, even after the *arret* of the 21ſt of May: and all the monſtrous value of paper, raiſed ſo high by the low rate of intereſt, might have been preſerved: conſequently this value, in capital, *really exiſted* relatively to the rate of intereſt.

As the object of the preſent diſquiſition into the principles upon which the Miſſiſippi ſcheme was conducted, is only intended as an illuſtration of the principles of credit in general; I ſhall firſt account for the wonderful phænomenon above mentioned, and then ſhew how, in the greateſt of all the French diſtreſs, their credit might have been re-eſtabliſhed in a more ſolid manner than ever.

As to the wonderful phænomenon of the prodigious *wealth* created by the ſyſtem, and annihilated in one day, I anſwer, that there had been no creation of wealth at all, except in conſequence of the fall of intereſt.

Firſt, We have ſeen that at the death of the late King of France, the intereſt of his debts amounted to 80 millions. Was not this a fund which ought to have been made ſolid and permanent? Will any man ſay, that a regular plan of paying this intereſt was a means of creating new wealth? Certainly not.

Secondly, Theſe debts were moſtly ſecured *by contracts of conſtitution of annual rents upon the town-*

town-house of Paris: a security taken in the name of a particular creditor, which requires a form of law to transfer.

By the scheme we have been explaining, all these securities were changed: and instead of constitutions of rent, bank notes, in which the King was equally debtor, were given.

Will any man say, that this was the means of either increasing or diminishing the wealth of France? Certainly not. A man who has a good bond in his pocket is as rich before it is paid with bank notes as after: but he has not so much money in his hands; because the bond is not *money*, and the notes are.

Thirdly, We have said that the interest of the King's debts amounted to 80 millions a year, at 4 *per cent.*

We have seen how the company of the Indies were provided with a fund equal to this sum, arising from the 48 millions which the King paid for the loan of the paper with which the debts were to be paid, and from many other lucrative branches of revenue; which instead of being burthensome to the King, were, on the contrary, the means of augmenting his income, by the advanced rent the company gave for the different farms which produced them.

Had the public creditors, therefore, vested their claims in actions, they would, in consequence of that operation, have become sharers in the fund of 80 millions a year, administered by themselves, (and they would then have been the company) open

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to be improved by trade abroad, and by a good adminiſtration at home.

Had this ſyſtem been carried on in a plain eaſy way, conſiſtently with common ſenſe, the public creditors would have been paid; the King's revenue augmented: and it would have been put under a good and a cheap adminiſtration.

But when, by the abſurd operations of changing the denominations of coin and paper, and wantonly playing with every man's property, the creditors ſaw themſelves ſtanding on the brink of a precipice; and finding, inſtead of a good contract on the town-houſe of Paris, a bank note put into their hands, which might be diminiſhed in its value by one half every month, while at the ſame time the coin might be raiſed to double, it was very natural to ſuppoſe, that the intention of the King's miniſters was to withdraw from them totally theſe 80 millions, to which they were entitled: in which caſe, there was an annihilation indeed of all the notes; but there was no annihilation of wealth: for in that caſe, the wealth was ſtill the ſame, only it was transferred from the creditors to the King the debtor: that is, the creditors were defrauded.

On the other hand, ſtood the proprietors of the actions ſold. Theſe had been uſed to make a traffic of buying and ſelling the 200,000 actions which had been in their hands ever ſince September 1717, when they were firſt created. For we have ſhewn, that the poſterior creation of actions by the united company, was a mere deluſion, as they were all found in the cuſtody of the Regent. The actions,

I ſay,

I ſay, were immediately put into a ſtate of ſtagnation; becauſe of the diſcredit caſt upon the bank notes, with which it had been uſual to buy them.

Fourthly, I muſt obſerve, that the ſtagnation of a paper which carries no intereſt, is equal to a temporary annihilation. The holder then is deprived of the uſe of his money; and he is not paid for the loſs he ſuſtains.

If, therefore, it had been poſſible to have given a new activity to this bank paper, without allowing it to die away, as it were, in this temporary fit of fainting, credit would have revived: all accompts would have been kept clear, for this is the uſe of paper money, and ſo ſhort a ſhock would hardly have been felt.

But the great damage reſulting to the public, upon every occaſion of this kind, proceeds from the *delay* in applying the proper remedy. When any paper is diſcredited, it immediately falls in its value. The perſon then who is the original and real creditor for the whole value, and in whoſe hands the paper is when it ſuffers the diſcredit, ſells at diſcount: this is an irretrievable loſs to him; and when the paper recovers its credit again, either in part, or on the whole, the profit then belongs to the perſon who had bought it at diſcount, and does not go to indemnify the real ſufferer.

This was the caſe with reſpect to the notes of the French bank: they were allowed to languiſh from the 21ſt of May that they were diſcredited, until the 10th of October, when their fate was decided, as has been ſaid.

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Farther, we have ſeen, that this whole movement of credit had for its baſis 80 millions a year, originally paid to the creditors for their intereſt. This ſum anſwered to the capital of 2900 millions; becauſe at the old King's death, intereſt was fixed at 4 *per cent.*

When, by the operations of the ſyſtem, all this capital was turned into money, that is, bank notes, the regorging plenty of it made intereſt fall to 2 *per cent.* conſequently, the capital, which conſtantly draws its value from the intereſt paid for it, roſe to 4000 millions. We have ſaid that the total value of the paper roſe to 6000 millions, but we muſt reflect, that above 2000 millions of theſe 6000 millions was in bank notes, and employed in buying of actions. So that both the notes and the actions muſt not be reckoned as exiſting together.

Had the Regent ſold the actions, he would have burnt 2000 millions of bank notes, and thus the value in paper would have remained at 4000 millions, ſo long as intereſt remained at 2 *per cent.*; and had intereſt fallen ſtill lower, and dividends remained at 200 livres *per* action, the value of actions, and conſequently of this capital of 4000 millions, would have riſen in proportion, juſt as the value of the capital of the debts of Great Britain riſes and falls according to the rate of money; although the ſame ſum of intereſt be paid to the creditors at all times.

This augmentation, therefore, upon the value of all capitals, during the Miſſiſippi, of lands as well as actions, was in conſequence of the fall of intereſt, and from no other artifice whatever. Lands in France,

ance, at that time, ſold at 80 and 100 years purchaſe. [Dutot, Vol. II. p. 200.]

When credit failed, and when all the circulating paper was thrown into a ſtate of ſtagnation, intereſt roſe, in proportion to the deficiency of the ſupply for the demands of borrowers. The value of capitals then diminiſhed. But this might have happened from another cauſe, had there been no bankruptcy, or intention to defraud the creditors: a war might have produced it; or any circumſtance which might have raiſed the rate of intereſt.

The riſe, therefore, upon capitals, from the fall of intereſt, I conſider here as no acquiſition of wealth: I reckon wealth to be that which is the annual produce of the capitals.

So much for the reſolution of this wonderful phænomenon.

I muſt now ſhew that in the height of the diſtreſs, the confidence of the public was ſtill to be regained, and credit recovered, even after the fatal *arret* of the 21ſt of May 1720.

I lay it down as a principle, *that whoever has a ſufficient fund, and pays intereſt regularly for the money he owes, runs no riſk of loſing his credit.*

So ſoon, therefore, as the Regent found that by his *arret* of the 21ſt of May, all credit had diſappeared; had he, upon the 27th of the ſame month, or at the time he raiſed the coin to 82 livres 10 ſols *per* marc, ordered all bank notes preſented to the bank, either to be paid in coin, or marked in the books of the bank as bearing intereſt at 2 *per cent.* I ſay, credit would not have ſuffered in any compariſon to what it did. Nobody then would

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have ſold a note at diſcount; and, had it been neceſſary, he might have ordered the intereſt to be paid monthly.

The authority I have for this opinion is Dutot, who ſays, that upon opening the ſubſcription of 25 millions in the month of June, the notes fell in their value 11½ *per cent.* only.

Now the rate of this ſubſcription was at 2½ *per cent.* as we have ſeen; conſequently, if 100 livres of notes loſt but 11½ *per cent.* they were worth 88½ livres in coin; but theſe 100 livres in notes were worth 2½ *per cent.* becauſe the ſubſcription was open at that rate: conſequently 88½ livres in coin was alſo worth 2 livres 10 ſols *per annum*: conſequently intereſt, at that time, was at 2.825 *per cent.* that is, below 3 *per cent.* even after the bankruptcy.

Where then was the great harm? Where was the occaſion to fly immediately to the deſtruction of actions, which were in the Regent's own hand? A little patience, and good management, would have ſet all to rights.

I ſhould, therefore, have left the notes in circulation under this regulation, viz. that ſuch as ſhould be preſented to the bank ſhould have had a transfer of 2 *per cent.* paid quarterly; or a value, in actions, at 10,000 livres *per* action; which is the capital anſwering a dividend of 200 livres at 2 *per cent.* at the option of the holder: and in caſe intereſt had come to fall ſtill lower, the price of actions might have been augmented.

I ſhould have ſet before the public a full and exact account of the company's funds. I ſhould have baniſhed all myſtery from the affairs of credit.

I ſhould

I ſhould have regiſtered a declaration in parliament, ſetting forth, CHAP. XXXIII.

Firſt, That all future changes either upon the denominations of paper or coin, were contrary to the maxims of good government.

Secondly, That all ſtipulations between the King and his creditors, were to be inviolable. And,

Thirdly, That the parliament of Paris ſhould for ever remain inveſted with an excluſive right to watch over theſe regulations in time to come; and I ſhould have bound the parliament by a ſpecial oath for this purpoſe. I ſhould even have had the King to take the ſame oath: and he might have ratified it at his coronation in 1725.

By theſe ſteps I ſhould have veſted a new power in the Kings of France which they never had before: a power of having money from their ſubjects, from their allies, and from their enemies: a power they have not, nor ever will have, until the principles of credit be better underſtood among them.

Had ſuch a plan been followed, I have not the leaſt doubt, but that, firſt, The actions would have been ſold at a very great advanced value above the ſtandard of 5000 livres, at which the Regent had bought them; ſecondly, That money would have come back to 2 *per cent.* and then, thirdly, Had banks been eſtabliſhed upon a proper plan, eaſe, with induſtry, would long ere now have appeared in every corner of that kingdom.

How infinitely more eaſy would it have been to eſtabliſh ſuch a plan in 1720 than at preſent? At that time the moſt difficult part of the whole was executed,

executed. The creditors had taken notes for their claims: the credit then was given and accepted. There was nothing to be done but to ſupport it. The creditors were then at the mercy of the ſtate: at preſent the ſtate is at the mercy of the creditors. Were ſuch operations on coin to take place at preſent, as were then familiar; were the King at preſent to attempt to turn the conſtitutions of rent, perpetual and life-annuities, into any other form than what they have, the credit of France would be undone for a long time; and who knows what views of ambition a ſituation ſo deplorable might not ſtir up in certain courts of Europe.*

What ſtate would pay its debts, if it *durſt* do otherwiſe? And what ſtate can diminiſh its debts in any other way than by lowering the intereſt upon them? But of this more in its proper place.

* On reviſing this paſſage, January 1771. I am tempted to ſubjoin a note; but I think it will be better to leave what I might there obſerve, concerning the preſent ſtate of French credit, to my reader's own ingenuity.

CHAP. XXXIV.

How the diminiſhing the Denomination of the Paper in Circulation, by the arret *of the 21ſt of May 1720, deſtroyed the credit of France, when the ſame arbitrary Meaſures taken, with regard to the Coin, had produced no ſuch Effect.*

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THIS queſtion is curious, and I ſhall endeavour to reſolve it in the beſt way I can, before I conclude this ſubject.

The firſt thing to be done is to point out the immediate effects which reſulted upon diminiſhing the denomination of the paper; becauſe the deſtruction of the credit of France was not the immediate conſequence of this *arret;* but the ultimate effect of a chain of conſequences which followed indeed very quick upon one another.

The paper had been declared, againſt the opinion of Mr. Law, by an *Arret de Conſeil* of the 22d of April 1719, *une monnoie fixe*, as has been ſaid. Conſequently, any diminution of its denomination was a plain infraction of the public faith. From this declaration in the *arret* of the 22d of April 1719, the public reaped one notable advantage, which was, that in borrowing and lending paper, every one was ſure that the obligations contracted could be diſſolved by reſtoring the very ſame ſpecies of property which had been received; but by diminiſhing the denomination of it, by the *arret* of the

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the 21ſt of May 1720, all ſuch as were debtors became obliged to diſcharge their debts at the expence of double the ſum of paper borrowed.

The immediate conſequence, therefore, of touching the denomination of the paper, was, to ſhew the public that their fortunes in paper were liable to the ſame inconveniences as fortunes in ſpecie; that is, that they might be increaſed or diminiſhed at pleaſure. Upon this it was very natural for every one to endeavour to realize his paper, and put it into coin: ſince, *in pari caſu*, it was better to have it in that which had ſome intrinſic value, than in that which had none at all.

Of all the French paper, the notes were the moſt eaſily realized; becauſe there was contained in them a direct obligation upon the bank to pay them in coin. The actions again were more difficult to be converted; becauſe, in order to realize them, it was neceſſary to find people who were willing to give either notes or coin for them.

A run upon the bank, therefore, taking place the *arret* of the 21ſt of May, it was obliged to ſtop payment: this occaſioned a general alarm, and *deſtroyed the confidence which the public had had in the ſtate*, which is what we mean by *public credit*.

This point explained, it remains to ſhew why the augmentations and diminutions upon the ſpecie ſhould not have ruined the credit of the paper.

1ſt, The operations upon the ſpecie affected the paper only indirectly; but the diminution upon the paper affected it directly.

The operations upon the ſpecie affected only that part of the paper which was made to circulate as an equivalent

equivalent for the ſpecie; or in other words, that part which people realized, either, with an intention to withdraw their funds altogether out of the ſcheme; or to profit of the operations upon the ſpecie; or in the laſt place, to procure ſmall ſums of money for common expences.

Now as to the firſt, the number of thoſe who wiſhed to withdraw their ſtocks was inconſiderable, in proportion to the ſtock-jobbers; and therefore their intereſt could not affect the general credit; and the laſt was inconſiderable in every reſpect.

As to the ſecond, the government made it very difficult for the proprietors of notes to profit of the operations upon the coin. When the denomination of the coin was to be diminiſhed, the diminutions were advertiſed ſome time before they took place, and the diminution went on always by degrees. Thus people who had paper, with which they could trade in buying actions, (conſtantly riſing in their value, by the intrigues of the ſtate,) at the time the denominations of the coin were ſucceſſively diminiſhing, did not carry their notes to the bank for two reaſons.

The firſt, that the paper really gained by every diminution upon the denomination of the ſpecie, in an exact proportion to the diminution. A livre in a bank note, while the ſpecie was diminiſhing by intervals from 80 livres the marc to 65 the marc, gained regularly in the hands of the poſſeſſor; whereas had he realized at any period but the laſt, the ſubſequent diminutions upon the ſpecie he had acquired with his paper would have affected the value of it.

The

The ſecond was, that by realizing he deprived himſelf of the profit of ſtock-jobbing.

The only way, therefore, for the proprietors of the paper to gain by the operations of the ſtate upon the coin, was to gueſs the time when the coin was to be raiſed in its value: but this was impoſſible; for the riſing was ſudden and unexpected; whereas notice was conſtantly given of the fall, at ſome diſtance of time.

For example, the money was ſuddenly raiſed the 5th of March 1720, from 60 livres to 80 livres the marc; and the 11th of the ſame month, notice was given, that on the 1ſt of April following, it was to be brought down again to 70 livres *per* marc; and on the firſt of May following, to 65 livres. The conſequence of this was, that from the 11th of March, people were glad to carry their coin to the bank in order to receive notes which were to ſtand at the ſame denomination, whereas the ſilver was to diminiſh on the 1ſt of April.

Accordingly a great ſum, above 44 millions, was brought in during this interval.

When the 1ſt of April came, and that the ſilver was brought to 70 livres the marc, thoſe who were in poſſeſſion of the paper, were ſtill prevented from realizing it into coin; becauſe of the future diminution which was to take place. When this term again was come, people had reaſon to imagine that the ſilver would for ſome time ſtand at 65 livres the marc; conſequently, there was more to be gained in ſtock-jobbing with the notes, than in realizing them into ſpecie, which, in order to make profit of it, muſt have lain dead until a new augmentation; which

which was a very uncertain event. In ſhort, there was no run upon the bank from the 1ſt to the 21ſt of the month of May, when the famous *arret* in queſtion was given. Then indeed the run came on with violence, and payment was ſtopt.

The ſecond reaſon why the effects were different, when the ſtate changed the denomination of the coin, from what they proved to be when the denomination of the paper was changed, I take to be this:

That in France the operations upon the coin had been familiar; and were expected by every body: and, perhaps, the very making the paper a *monnoie fixe*, had for this reaſon added to the credit of it. A moſt ſurprizing thing! The ſtate took care always to gain, whether they raiſed, or whether they diminiſhed the value of the coin. The ſtock-jobbers, therefore, never minded the coin at all. If they could profit of an augmentation by foreſeeing it, they realized; if they could profit of a diminution before notice was given of it, then they bought paper.

The operations on the coin principally affected ſuch as were either reſpectively debtors or creditors to people who were obliged to pay, or to receive their debts in ſpecie; or who had a fixed revenue ſpecified in a number of livres. As to theſe the diſorder was greât, as has been frequently obſerved.

Thirdly, The operations upon the ſpecie never could deſtroy the intrinſic value of it, however they might prevent the circulation of it for a fixed legal denomination; therefore it remained, under all circumſtances, a thing valuable to be acquired; and

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to execute it; and a law without *execution* is, in fact, no law at all.

When the King's will can be carried into execution by a ſingle act of power, the authority of parliament is of no effect in preventing it. When this requires a train of ſyſtematical adminiſtrations, the concurrence of parliament, who hold the whole regular execution of the laws, is abſolutely neceſſary.

Banks of depoſit and of circulation, ſtand, it muſt be confeſſed, upon a very precarious footing, under ſuch a government.

An order from the King is at any time ſufficient to command any depoſit of ſpecie which can be made within the kingdom. While this is the caſe, no paper can have any ſolidity, which draws its ſecurity from ſuch depoſit.

Coin, therefore, muſt be baniſhed from all banks in France: and the uſe of them ſhould be entirely limited to that of an office, for the keeping of reckonings between people who have ſolid property, and who may want, on a thouſand occaſions, to melt it down in favour of conſumption, trade, induſtry, agriculture, or the like.

In this light, a general bank may be eſtabliſhed at Paris, and branched out over the whole kingdom. The ſtock of it ſhould conſiſt in land-property, engaged unalienably, to make good the engagements of the bank.

Notes ſhould be iſſued upon a ſolid ſecurity, bearing intereſt to the bank, while the notes circulate as money; and when they return upon the bank, either the original ſecurities may be withdrawn, or payment

payment may be made by the transfer of a corresponding perpetual intereſt.

Every province, every conſiderable city in the kingdom, ſhould be allowed to be intereſted in ſuch a bank: and in every conſiderable city, there ſhould be an office for tranſacting ſuch credits, and for regularly receiving all payments of intereſt. If the King ſhould think fit to allow his mint to ſupply coin, or bullion, for bank notes preſented, at a determinate premium, he might by this operation advance the commercial intereſts of his kingdom, in facilitating the payments of a wrong balance of foreign commerce: but without this regulation, the bank will be perfectly ſufficient for promoting and ſupporting domeſtic circulation. Every one who is able to give ſecurity for a certain intereſt, will be ſure to find money: and as the expence of conducting ſuch a bank will be very ſmall, the intereſt for money will be very low.

As I ſaid before, a bank of this kind would be no more than an office, appointed for keeping accounts between people who are poſſeſſed of any paper ſecured upon real and ſolid property: and farther, in the beginning, at leaſt, I ſhould not adviſe to carry it.

The general accompt of the bank would appear in a few articles, viz. Credits given, ſo much; *inde* of intereſt to be received, ſo much.

Notes returned, ſo much; *inde* of intereſt to be paid, ſo much; balance in favour of the bank, ſo much.

A bank of this nature would anſwer every purpoſe for promoting induſtry and domeſtic circulation.

Such a bank muſt neither iſſue, or ever receive coin in payment,

CHAP. XXXVI.

Of Banks of Depoſit and Transfer.

I NOW diſmiſs the ſubject of banks of circulation. The unſpeakable advantages drawn from this inſtitution, when properly regulated, in ſupplying money at all times to thoſe who have property for the encouragement of induſtry, and for improvements of all ſorts, and the bad conſequences which reſult to ſociety, from the abuſe they are expoſed to, has engaged me, perhaps, in too long a diſcuſſion of various circumſtances relating to them.

I now come to treat of banks of depoſit or of transfer of credit: an inſtitution of the greateſt utility for commerce.

Theſe two ſpecies of banks differ eſſentially in two particulars.

Firſt, That thoſe of circulation ſerve the purpoſe of melting down unwieldy property into money; and of preſerving the quantity of it at the proportion of the uſes found for it. Thoſe of depoſit, are calculated to preſerve a ſum of coin, or a quantity of precious moveables, as a fund for carrying on the circulation of payments, with a proportional value of credit or paper money ſecured upon them.

Secondly,

Secondly, In the banks of circulation, the fund upon which the credit is built, is not *corporeally* in the cuſtody of the bank; in the other it is.

The fundamental principle, then, of banks of depoſit, is the faithful preſervation of the fund delivered to the bank, upon which credit, in money, is given for the value.

If at any time a bank of depoſit ſhould lend, or ſhould in anywiſe diſpoſe of any part of this fund, which may conſiſt in coin, bullion, or any other precious moveable, once delivered to them, to the end that a credit in money may be written down for it in their books of transfer, in favour of the depoſitor, and his aſſigns; by this act, the bank departs from the principles upon which it is eſtabliſhed. And if any bank be eſtabliſhed which, by its regulations, may ſo diſpoſe of the fund of its credit, then ſuch a bank becomes of a mixed nature, and participates of that of a bank of circulation.

Theſe things will be better underſtood by reaſoning from an example of a true bank of depoſit.

CHAP. XXXVII.

Of the Bank of Amſterdam.

MANY authors have written concerning this great bank of depoſit: particularly, Davenant, Sir William Temple, Ricard, in his *Traité de Commerce revu par Struyk*, the author of the *Eſſai ſur le*

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the 21ſt of May 1720, all ſuch as were debtors, became obliged to diſcharge their debts at the expence of double the ſum of paper borrowed.

The immediate conſequence, therefore, of touching the denomination of the paper, was, to ſhew the public that their fortunes in paper were liable to the ſame inconveniences as fortunes in ſpecie; that is, that they might be increaſed or diminiſhed at pleaſure. Upon this it was very natural for every one to endeavour to realize his paper, and put it into coin: ſince, *in pari caſu*, it was better to have it in that which had ſome intrinſic value, than in that which had none at all.

Of all the French paper, the notes were the moſt eaſily realized; becauſe there was contained in them a direct obligation upon the bank to pay them in coin. The actions again were more difficult to be converted; becauſe, in order to realize them, it was neceſſary to find people who were willing to give either notes or coin for them.

A run upon the bank, therefore, taking place the *arret* of the 21ſt of May, it was obliged to ſtop payment: this occaſioned a general alarm, and *deſtroyed the confidence which the public had had in the ſtate*, which is what we mean by *public credit*.

This point explained, it remains to ſhew why the augmentations and diminutions upon the ſpecie ſhould not have ruined the credit of the paper.

1ſt, The operations upon the ſpecie affected the paper only indirectly; but the diminution upon the paper affected it directly.

The operations upon the ſpecie affected only that part of the paper which was made to circulate as an equivalent

It is evident, from this change in the mode of circulation, that no loſs could be incurred from the locking up of the coin.

As long as coin is in a ſtate of conſtant circulation, it can produce no intereſt to any perſon. Intereſt commences from the moment the coin begins to ſtagnate; that is to ſay, ſo ſoon as it comes into the hands of one who has no ready money demand upon him. When this happens, the proprietor lends it at intereſt.

Now the credit in the books of the bank, which is every day transferable at the bank, anſwers every purpoſe of coin, either for *payment* or *loan*: and the proprietor has neither the trouble of receiving the ſpecies, nor any riſk from robbery, or falſe coin.

The firſt advantage the city reaped from this inſtitution, was, to ſecure the reſidence of trade in that place.

Capitals transferable only at the bank, laid the proprietors under a neceſſity of fixing their dwelling where their funds were, and where only they could be turned to accompt.

It had another excellent effect in commerce: it pointed out the men of ſubſtance. A credit in bank is no wiſe equivocal: it is a fund of undoubted ſecurity.

From the conſtitution of this bank we may form an eſtimate of the extent of the depoſit.

It can only ſwallow up a ſum equal to what is neceſſary for circulating the payments of the city of Amſterdam. Were a ſum exceeding this to be ſhut up in the bank, and were the credits written in the books of the bank to exceed this proportion, it is plain

plain, that the value of the bank money would ſink immediately. The reaſon is obvious: the credits transferable are of no uſe to thoſe who have no occaſion to transfer; that is, to pay, lend, or exchange at Amſterdam. So ſoon, then, as all the demand of Amſterdam is ſatisfied, the proprietors of the overplus will ſeek to realize their ſuperfluous credit, in order to inveſt the value ariſing from it, in ſome other place where a demand may ariſe.

In order to realize, they muſt ſell their bank credit for coin; becauſe the bank pays in transfer only. Coin then would be demanded preferably to credit in bank; conſequently, coin would riſe in its proportional value to bank money, or bank money would loſe, which is the ſame thing. This fluctuation between bank money and coin, leads me to explain what is called the agio of the bank.

CHAP. XXXVIII.

Of the Agio of the Bank of Amſterdam.

WE have pointed out one motive for eſtabliſhing a bank of depoſit at Amſterdam, viz. that of fixing the reſidence of trading men in that city.

Another was, to prevent the inconveniences to which a ſmall ſtate was expoſed, by the introduction of bad coin, from all the neighbouring countries in Europe, with whom they traded.

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In the territory of Holland there are no mines of gold and ſilver: conſequently all they have comes from other countries, as the return of a favourable balance upon their commerce.

At the time the bank was eſtabliſhed, the republic was in a ſtate of infancy; and any coin they had, was that of their old maſters the Spaniards. This was unequally coined; many pieces were light; many had been clipped and waſhed. As they extended their traffic, they were obliged to receive great quantities from Germany, which was ſtill worſe.

In order then to prevent the circulation of ſuch coin, and the perplexities occaſioned by it in all accounts, they eſtabliſhed a bank, and fixed the ſtandard upon a ſilver coin called the ducatoon, to which they gave the denomination of 3 florins or guilders bank money.

But as this coin alſo was unequal, like all the reſt of the ſpecie in Europe, before the introduction of milled coin, and the policy of weighing piece by piece at the mint, the bank appointed the ducatoons to be received in bags of 200 pieces, weighing together 26 marcs 5 ounces 10 engles of Amſterdam troes, or gold weight; which being reduced to aces (the loweſt denomination in this weight) make 136,640 aces. This divided by 200, gives, for the weight of 1 ducatoon, 683,2 aces.

Let us now convert theſe aces into troy grains, according to the proportion eſtabliſhed between Dutch aces and troy grains, in the laſt chapter of the third book.

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The equation will ſtand thus:

5192.8 aces, being equal to 3840 troy-grains, 683.2 aces, therefore, will equal 505.21 troy-grains; which, conſequently, is the weight of a ducatoon, or of 3 florins bank money of Amſterdam.

Next as to the fineneſs of this coin:

The ducatoon was coined, according to the imperial ſtandard, of 14 loots 16 grains fine: that is to ſay, it is $\frac{268}{288}$ parts fine, and $\frac{20}{288}$ parts alloy.

To find, therefore, the number of Hollands aces, and of troy-grains of fine ſilver in the ducatoon, ſtate the two following proportions:

288 : 268 :: 683.25 : 635.75 aces fine.

288 : 268 :: 505.21 : 470.13 troy-grains fine.

In the laſt place, if we divide the number of aces, and troy-grains fine in the ducatoon, by 3, we ſhall ſee the exact weight of fine ſilver in 1 florin of Amſterdam bank money.

$\frac{635.75}{3}$=211.91 aces, and $\frac{470.13}{3}$=156.71 troy-grains fine.

Theſe calculations premiſed, it would be an eaſy thing to fix the exact par of the metals, between ſterling and bank money of Amſterdam, were the Britiſh coin of legal weight, and were the metals there rightly proportioned. But is it to be ſuppoſed, that any perſon who has bank money of Amſterdam, will exchange, at the par of the metals, with ſterling ſilver, which is many *per cent.* too light, or againſt Engliſh bank notes paid in gold, always overrated with regard to the ſilver, and often too light alſo?

While

While, therefore, the coin of Great Britain ſtands upon the preſent footing, all calculations of the par of exchange, as it is commonly computed, upon the intrinſic value of the coins of other nations, muſt be deluſive and of no utility whatever.

For the ſake of giving an example, however, here is the real par of the two currencies, upon ſilver ſterling coin of full weight.

One pound ſterling ſhould contain, as has been ſaid, of fine ſilver 1718.7 troy-grains, and contains 240 pence ſterling: ſtate, therefore, the following proportion, and you will find how many pence ſterling one florin of Amſterdam banco ſhould be worth.

1718.7 : 240 : : 156.71 : 21.883.

Thus 21.883 pence ſterling is exactly the real par of an Amſterdam florin banco, ſuppoſing ſterling money to be ſilver, at the full weight.

The florin bank money being regulated upon the ducatoon, an old ſpecies not now coined, the fineneſs of the ſilver was determined; and the weight of the 200 ducatoons being determined alſo, this regulation determined the weight of ſingle pieces, and fixed the ſtandard of the florin banco, in weight and fineneſs.

The current money in Holland, coined by the ſtate, is the florin of 200.21 aces fine, as we have ſeen in the laſt chapter of the preceding book.

As ſoon as the ſtate began to coin their current florins at 200.21 aces, it is evident, that the ducatoon, which contains three times 211.91 aces, muſt have riſen in its value. Accordingly, the piece which

was in bank money, 3 florins, became 3 florins 3 ſtivers current money.

This difference is what is called the agio of the bank of Amſterdam.

From this it appears, that the advanced value of the bank-money above the current money of Holland, is not owing to the great credit of the bank, as ſome imagine, but to the ſuperior intrinſic value of the coin upon which the ſtandard of the bank money is fixed.

Let us next determine the exact difference between the bank and the current money, which difference I ſhall call the *intrinſic agio*: for this purpoſe ſtate this proportion:

200.21 : 211.91 :: 100 : 105.84.

From which it appears, that the bank money is 5.84 *per cent.* intrinſically better than the current money of Holland.

But we have ſeen in the chapter referred to, that the current ſilver coin of Holland is one *per cent.* below the ſtandard weight. The regular agio however of the bank money of Amſterdam is always ſuppoſed to be 5 *per cent.* Farther,

The ducatoon, upon which it is regulated, paſſes for 3 florins 3 ſtivers, which is juſt 5 *per cent.* better than 3 florins, at which it was rated when the bank was eſtabliſhed; but moſt of the coins which circulate are light, as has been ſaid.

Thoſe who conduct the affairs of the bank, have now loſt ſight of this original coin, which is rarely found circulating, in conſiderable ſums; and they conſider the florin according to its intrinſic worth of 211.91 acés of fine ſilver; and as the value of ſilver varies,

varies, they publiſh regulations for receiving coin, ſuch as Spaniſh dollars, French crowns, &c. according as they find the proportion of their worth in bank money: and compounding the value of gold with the value of ſilver, they make the ſame regulations as to gold.

I have inſiſted too long already upon the ſubtilties of the variations in the proportion between gold and ſilver, to take it up again in this place. My intention is to explain the principles upon which this great bank of depoſit is eſtabliſhed, and not to deſcend into a detail of the mechaniſm of their adapting the variable coins of Europe to their own ſtandard.

I have ſaid, that the ſum of credit, written in the books of the bank, is in proportion to the quantity of bank money neceſſary for circulating the trade of Amſterdam.

Conſequently, as this circulation increaſes, the demand for bank money muſt increaſe alſo.

Again; in proportion as the demand for bank money increaſes, the agio muſt riſe; and on the other hand, as the demand for current money increaſes, the agio muſt fall.

Thus we ſaw in the laſt war, 1760, 1761, 1762, that agio was below 5 *per cent.* The reaſon was plain. The great circulation carried on in Amſterdam was conſiderably directed towards the uſes of the war. In Campaign, bank money was of no uſe; coin only could there ſerve the purpoſe of circulation. Accordingly agio fell to — *per cent.* and as gold was much more eaſily tranſported than

than ſilver, this metal ſoon roſe ¼ *per cent.* above the ordinary proportion of 1 to 14½.

Demand regulates every thing; and this demand makes the agio fluctuate; ſometimes riſing above, and ſometimes falling below 5 *per cent.*

CHAP. XXXIX.

Continuation of the ſame Subject; and concerning the Circulation of Coin through the Bank of Amſterdam.

HITHERTO we have repreſented this bank as a gulf, which is calculated to ſwallow up the coin of Europe; without having pointed out any faculty of throwing up a part of the treaſure ſo ſecured, in a caſe of an overcharge.

This has appeared a myſtery to many, and a defect in the conſtitution of the bank.

But when the principles upon which it is eſtabliſhed come to be compared with ſome branches of their adminiſtration, which are publicly known, perhaps the myſterious part may be unravelled. And although I do not pretend to give an entire ſatisfaction as to every minute particular, I think I can ſhew how, and to what extent, the treaſure may circulate, ſo as to occaſion no abuſe, either from the hoarding it on one hand, or from the diſſipation of it, for the ſervice of the ſtate, on the other: and if all theſe conjectures ſhall be found to hang together, and appear conſiſtent with principles, without being contradicted by any known fact, then I may

may conclude, that ſuch a ſyſtem of banking as I deſcribe, is at leaſt a poſſible ſuppoſition, whether it exactly coincide with that of Amſterdam, or not. And who knows but my ſpeculations may enable ſome perſon of more knowledge and more ſagacity than I am poſſeſſed of, to render this curious operation of credit ſtill more generally underſtood than hitherto it has been.

I have ſhewn how the agio riſes and falls, according to the demand for bank money.

As long, therefore, as the agio does not fall below the difference between the value of the two currencies, it is a proof that all the credit written in the books of the bank does not exceed the uſes for it: conſequently, the coin locked up, which never can exceed the credit on the transfer books, and which, were it not locked up, could be of no more ſervice than the credit itſelf, in circulating the trade of Amſterdam, does not exceed its due proportion: conſequently, it is not hurtfully withdrawn from commerce; conſequently, no abuſe is implied from the hoarding of it.

But let me ſuppoſe a caſe, which may happen; to wit, that for a certain time, the trade of Amſterdam may demand a larger ſupply of credit in bank, than is neceſſary upon an average. Will not this raiſe the agio? No doubt. If the agio riſe ſo high as to afford a premium upon carrying coin to the bank, upon the footing of their own regulations, this will augment the ſum of bank credit; becauſe the money ſo carried to the bank, becomes incorporated with the bank ſtock; the value is written in

the books of the bank; and when this is done, the coin is locked up for ever.

If then it ſhould happen, that the trade of Amſterdam ſhould afterwards diminiſh, ſo as to return to the ordinary ſtandard, will not this overcharge of credit depreſs the rate of bank money, and ſink the agio too much below the par of the intrinſic value of the two currencies?

To theſe difficulties I anſwer, like one who, being ignorant of facts, which I never could get aſcertained by any perſon in Holland to whom I had acceſs for information, and which facts remain hidden from moſt people in the deep arcana of Amſterdam politics; I anſwer, I ſay, like one who has recourſe merely to conjectures, founded upon natural ſagacity.

Firſt then, The city of Amſterdam knows, from long experience, the rate of demand for bank money; and it is not to be ſuppoſed, that upon any ſudden emergency, which may *heighten* that demand for a time, they ſhould be ſuch novices as to increaſe the credit upon their books ſo far, as to run any riſk of overſtocking the market with it; eſpecially as, on ſuch occaſions, the deficiency of bank credit might be ſupplied with coin, conſtantly to be found in the city of Amſterdam, as we ſhall explain preſently.

Farther, Who will ſay, that there does not reſide a power in the managers of this bank to iſſue coin for the ſuperfluous credit, in caſe that, in ſpite of all precautions to prevent it, a redundancy of bank credit ſhould at any time be found upon their books?

It

It is very true, that no perſon, having credit in bank, can demand coin for ſuch credit; and as no demand of this ſort can ever be made, it is very natural to ſuppoſe, that a redundancy of coin and credit can never be purged off.

During my ſtay in Holland, I was at great pains, to no purpoſe, to diſcover whether ever the bank iſſued any part of their credit caſh upon any ſuch occaſions. Every one I converſed with was of opinion, that if ever any coin had been taken from the treaſure of the bank, it muſt have been by authority of the ſtates, for national purpoſes: a ſtep conducted with the greateſt ſecrecy; and the matter of fact, I found, was extremely doubtful. But this is nothing to the preſent purpoſe. That the coin *may* be diſpoſed of, I allow, though I do not believe it; but how is the ſuperfluous credit, written in the books, to be diſpoſed of? There lies the difficulty.

The popular opinion is, that coin has been taken out for the ſervice of the ſtate: the opinion of many intelligent men is quite contrary.

I am now to give my opinion, not only as to this point, but upon the main queſtion; and this not from information, but from conjecture; which I ſhall ſubmit to the better judgment of my reader.

My opinion then is, Firſt, That every ſhilling written in the books of the bank, is actually locked up, in coin, in the bank repoſitories.

Secondly, That although, by the regulations of the bank, no coin can be iſſued to any perſon who demands it in conſequence of his credit in bank; yet I have not the leaſt doubt, but *that both the credit written in the books of the bank, and the caſh*

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in their repoſitories which balances it, may ſuffer alternate augmentations aud diminutions, according to the greater or leſs demand for bank money. If I can prove this, all difficulties will be removed.

My reaſons for being of this opinion are,

Firſt, From principles, I muſt conclude, that if, upon any occaſion whatever, even when the ſmalleſt demand for bank money, and the greateſt demand for coin takes place, there were an impoſſibility of producing the leaſt diminution of bank credit, or of procuring any ſupply of the metals from the bank, the conſequence certainly would be felt, by an extraordinary fall in the value of bank money; or, which is the ſame thing, in other words, by an extraordinary riſe in the value of the metals, when compared with bank money.

Now, this is a caſe which never happens. Variations upon the rate of agio, of 2 or 3 *per cent.* perhaps more, are frequent and familiar. The demands of trade, for coin or credit, are ſo fluctuating, that ſuch variations are unavoidable; but were there an overcharge of bank credit, which no power could diminiſh, this overcharge would quickly be perceived; becauſe the fluctuations of the agio would entirely ceaſe; as the balance of a ſcale, nearly in equilibrio, ceaſes from a total overcharge on one ſide.

My ſecond reaſon is founded upon a matter of fact, which I muſt now apply.

There are upon the ſquare before the town-houſe of Amſterdam, (the place de Dam) between 10 and 11 in the morning, a number of caſhiers, whoſe buſineſs it is to buy and ſell bank credit, for current

rent coin. They bargain with all thoſe who have occaſion either to buy or ſell; and according to the demand for ſpecie, or bank credit, the agio riſes or ſinks: and as theſe caſhiers muſt conſtantly gain, whether they furniſh bank credit or current coin, ſince they are never the demanders in either operation, it is commonly found, that there is in their favour about $\frac{1}{16}$ *per cent.* or perhaps $\frac{1}{8}$ *per cent.* according to the alterations in the demand: that is to ſay, one who would firſt buy ſpecie, and then ſell it, would loſe $\frac{1}{4}$, or perhaps but $\frac{1}{8}$ upon his operation.

From this circumſtance of buying and ſelling of bank credit with coin, and *vice verſa*, I think I can reſolve the myſtery mentioned above, viz. how the conſtant accumulation of coin in the bank of Amſterdam, ſhould never have the effect of depreciating their bank money, by augmenting, beyond the demand for it, the quantity of their depoſit, and of the credit written in their books.

It is a matter of fact, that the bank lends both coin and credit to the brokers, caſhiers, or lombards, who are conſtantly found on the place de Dam.

Now I demand, what difference there can be, between the banks lending coin to perſons, who intend to diſpoſe of it in lieu of bank credit; and their paying coin to the perſons who have bank credit written down in the books of the bank; except this, that in the firſt operation, the bank has the choice either to lend or not, and to regulate the extent of the loan; whereas were it to pay to thoſe who have credit in bank, the rule muſt be general with reſpect to all who have credit in bank, and in

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this caſe the choice of paying or not paying coin, could no longer remain to the bank.

Whenever, therefore, the bank finds that agio falls too low, with reſpect to the coin; and, when, in conſequence of this, the demand for coin on the place de Dam *increaſes*; then they lend *coin* out of their repoſitories to the brokers; and when the agio *riſes*, they lend *credit*.

This curious operation of the bank, is conducted in the following manner:

A great demand for coin, implies a ſmall demand for bank credit; becauſe thoſe who demand the coin, wiſh to procure it in lieu of their bank credit; conſequently at ſuch times there muſt be a redundancy of credit written down in the books of the bank, which it behoves the bank to diſpoſe of, in order to preſerve the ſum of the bank credit at a due proportion to the demand for it.

When, therefore, the bank lends coin to a broker, in order that he may diſpoſe of it for bank credit; the broker makes the bargain with the perſon who has the bank credit, to the beſt advantage; and delivers the coin to him. He again goes with the broker to the bank, and writes off to him, in bank credit, the value of the coin he has received. This is all that appears to the public. But then the broker, in order to repay to the bank, the value of the coin which was lent to him, writes off to the bank itſelf an equal ſum of their own credit, conſequently, this credit is effectually expunged from their books, and in like manner, the coin which anſwers it, is taken from their treaſure.

If, on the other hand, the circulation of the trade of the city ſhould, in a ſhort time afterwards, begin to increaſe, thoſe who have coin, which in this caſe would not ſo well ſerve the uſes of circulation as the bank credit, come with it to the brokers, who ſell them bank credit for it; this coin the brokers deliver to the bank, which writes off the credit lent to the broker, in favour of him who has paid his coin for it.

This is, as far as I can gueſs, the nature of the circulation of the coin in the bank of Amſterdam.

It is a curious method of preſerving an exact proportion between the coin in depoſit, the credit written in their books of transfer, and the demand for bank money.

The plan is quite conſiſtent with principles, and agrees exactly with thoſe matters of fact which are known to all the world. Whether the operation be conducted exactly in the way I have repreſented it, or not, is a matter of ſmall conſequence to us, who aim at nothing more than the inveſtigation *of the principles* upon which ſuch operations *may* be conducted.

When we compare this operation with thoſe of the bank of circulation, which we have already explained, we find a great analogy between them.

We have ſeen how the notes iſſued by banks of circulation increaſe and diminiſh according to demand: and now we ſee how the ſame principle operates in banks of depoſit, which iſſue no coin on demand. In the firſt caſe, the maſs of ſecurities, or coin of the bank, is diminiſhed, without the conſent of the bank, by the act of their creditors; that

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is, the holders of the notes. In the laſt caſe, the creditors, or perſons who have credit in bank, cannot, by their own act, diminiſh the quantity of the coin depoſited; nor of the credit written; but the bank itſelf, by the help of thoſe interpoſed perſons, the brokers on the place de Dam, is enabled to preſerve an exact balance between bank money and the demand for it; augmenting it as it is demanded, and diminiſhing it when it is found too full.

From this I conclude, that the treaſure of the bank of Amſterdam is not near ſo great as ſome authors, from mere conjecture, and from a notion that the treaſure has been conſtantly accumulating from the firſt inſtitution of the bank, have been led to aſſert.

The author of the Eſſay on Commerce, reckons it at four hundred millions of guilders; and the Amſterdam edition carries in the margin a correction, which gives us to underſtand, that it amounts to between eight and nine hundred millions. Davenant eſteems it at 36 millions ſterling. Mr. Megens, an author of great judgment and ſagacity, eſteems this treaſure at no more than about 60 millions of guilders, or about 5,500,000*l.* ſterling; a ſum (ſays he) wherewith great things may be done. Univerſ. Merchant, ſect. 61. I agree entirely with him, that for the ready-money demands of the trade of Amſterdam, that ſum, conſtantly in circulation, may go a great length.

What has miſled moſt people in their eſtimation of this treaſure, is the appearance of a conſtant accumulation, without any reſtitution: but that there is a conſtant egreſs, as well as ingreſs of coin

coin to this bank, I think I have rendered pretty evident.

Beſides the permanent credit written in the books of transfer, concerning which we have been ſpeaking, the bank of Amſterdam receives, in depoſit, vaſt ſums of coin every year, which are not incorporated with the bank treaſure, but remain in the bags in which they are delivered, under the joint ſeals of the bank and of the perſon who delivers them.

This operation comes next to be explained.

The trade of Holland draws a conſtant flux of coin and bullion into the country; and ſends as conſtant a flux out of it. The eſtabliſhment of the bank of Amſterdam renders the uſe of this coin and bullion, upon many occaſions, ſuperfluous, as money.

It therefore remains as a commodity, the value of which riſes according to exigencies, on the demand for it.

When the precious metals come from Spain, Portugal, and other nations, who owe a balance to the Dutch, they are lodged in the bank of Amſterdam in the following manner.

The proprietors carry them to the bank in ſacs compoſed of a determinate number of pieces, and the ſac muſt be of a determinate weight, according to the regulations of the bank, from time to time; for which the bank writes off credit in bank, at certain rates, according to the coin lodged, to the account of the proprietor.

But as this coin is received, upon condition that it may be drawn out again, ſo ſoon as the depoſitor

ſitor ſhall demand it; inſtead of writing off the *whole value* upon the books of the bank, they write off a *certain part only* (ſuppoſe 90 *per cent.*) and for the remaining 10 *per cent.* they deliver what they call a *recipiſſe*, which is an obligation by the bank to re-deliver, upon demand, the individual ſacs, ſealed with the ſeals of the bank and of the depoſitor. This *recipiſſe* is transferable at the will of the perſon to whom it is delivered. Farther,

He who puts his coin ſo in depoſit, becomes bound to pay to the bank $\frac{1}{2}$, $\frac{1}{4}$, or $\frac{1}{5}$ *per cent.* every ſix months, according to the coin: that is, upon gold $\frac{1}{2}$ *per cent.* on pieces of eight and rix-dollars $\frac{1}{4}$; on ducatoons $\frac{1}{5}$ *per cent.* and in caſe he neglects ſo to do, then the coin becomes conſolidated with the treaſure of the bank, and can no more be drawn out, in virtue of the *recipiſſe*.

This being performed, the depoſitor may transfer, at will, all the 90 *per cent*, of his credit, in the courſe of his buſineſs; and ſo ſoon as the *value of coin* riſes in the market, he muſt fill up his credit in bank to the full value of the 90 *per cent.* and then preſenting his *recipiſſe*, he receives back his own individual coin, ſealed with his own ſeal, as when at firſt delivered.

If he finds that it is either inconvenient for him to fill up his credit, or that he has no occaſion for his coin, upon the riſe in its value, he may then ſell his *recipiſſe* to another, who has credit in bank equal to the value of the 90 *per cent*; and he, in virtue of the *recipiſſe* transferred to him, withdraws the coin, as the perſon might have done who put it in depoſit.

The

The *recipiſſe* itſelf, which is what gives a right to the coin to any one who is the proprietor of this obligation, and who has credit in bank for the ſum contained in it, riſes and ſinks in its value, according to the price of the coin to which it carries a right.

In this manner coin, which otherwiſe would be dead in a warehouſe, is made to circulate, in favour of the owner, during the depoſit, remaining at the ſame time always at his command; and the keeping of the coin brings into the bank a ſmall profit, but which, by conſtant accumulation, becomes conſiderable.

I have ſaid above, that the bank of Amſterdam puts forth, from time to time, what regulations they think fit, as to the rate at which they receive the different ſpecies of coin. Theſe regulations are formed according to the fluctuation of the value of the metals. When ſilver riſes above the proportion it had before, with reſpect to gold, then the ſilver ſpecies is received at a higher rate than formerly. When gold riſes in proportion to ſilver, then the gold coins are received at a higher rate than formerly.

This regulation reſembles that, which I formerly recommended in the third book, in order to fix a ſtandard for the unit of the money of Great Britain, according to the mean proportion of the metals: and it was for this reaſon, that [Book III. part I. chap. 1.] I aſſerted the bank money of Amſterdam to be an invariable unit, which the art of man had invented; that it ſtood like a rock in the

the ſea, immoveable by the fluctuating proportion between the metals.

It is no objection againſt this, to allege the variation of the agio, and the fluctuation of the value of bank money according to demand. Theſe variations ought to be referred to the coin, not to the bank money: the bank money is to be conſidered as fixed, becauſe it has all the characters of invariability.

If, indeed, the affairs of the bank came to be ill-adminiſtered, and that the credit written in the bank were allowed to ſwell ſo far beyond the demand for it, as to ſink the value of bank money ſo far below the rate of coin as to make it impoſſible to recover itſelf; then I ſhould allow that the bank money was no longer an invariable ſtandard: but in this caſe, I ſhould conſider the bank as in a kind of political diſeaſe, becauſe it would then be withdrawn from under the influence of its own principles, which hitherto has never been the caſe.

It has been imagined by many, that the treaſure of the bank of Amſterdam has been, upon certain occaſions, made uſe of for the public ſervice. This is a conjecture merely; and perhaps it has been owing to the opinion which commonly prevails, that the treaſure far exceeds all the uſes which it can ſerve for. But as I am perſuaded, Firſt, That this opinion is void of all foundation; Secondly, That the treaſure never can exceed the credits written; and, Thirdly, That the credits never can exceed the uſes they are applied to: ſo I am of opinion, that a value, in coin, to the full extent of

theſe

theſe credits, actually exiſts in the repoſitories of the bank; becauſe were I to ſuppoſe the contrary, it would imply a notorious infidelity in the bank adminiſtration: an infidelity, which, if ever it ſhould be diſcovered, would overturn the whole credit of the bank, and, at one ſtroke, deſtroy the whole trade of that city. Now the uſe of three or four millions ſterling, to the ſtates of Holland, which they can procure when they will, at a very moderate intereſt, is not an object in the eyes of that ſagacious government, ſufficient to engage them to tamper with the bank treaſure: and the rather, that were they driven to the neceſſity of having recourſe to the bank, I make not the leaſt doubt but that ſo great a company, in order to procure a loan of money within the country, might be of more ſervice to the ſtate, by writing off upon an occaſion a *temporary, untranſferable credit at intereſt*, which might afterwards be expunged, than by delivering the coin correſponding to the bank credit of private merchants, which they muſt look upon as a moſt ſacred depoſit.

If we compare the credit of the bank of Amſterdam, with the credit of the bank of England, we ſhall find the firſt infinitely inferior to the latter as to extent, though not one bit inferior with reſpect to the ſolidity of it.

The extent of credit of the bank of Amſterdam is limited to the ſum of the credits written in their books, either in permanent transfer, as I ſhall call it, or in credit on caſh depoſited upon *recipiſſe*. All this credit put together, cannot extend beyond the limits of the circulation of the city of Amſterdam, in

in their domeſtic dealings, and in their exchange buſineſs; which laſt is indeed very great.

But the credit of the bank of England is equal (in a manner) to all the circulation and exchange buſineſs of London, and all the taxes paid in Great Britain. This bank, in circulating its paper, is not limited to the weight of coin in England. The whole intereſt of the national debt, and expence of the ſtate, may be paid in the paper of the bank, and be perfectly well ſecured, although their treaſure in coin may ſeldom amount to above four millions ſterling.

We muſt however allow, that banks of circulation, when ill conducted, are liable to great abuſe; as has been abundantly explained in treating of the Miſſiſippi. But how is abuſe to be prevented, while men conduct? And diſaſters may happen to a bank of depoſit, to which the other is not ſo much expoſed. May not the treaſure of the bank of Amſterdam be lent out on bad ſecurity? May not the ſtate lay hold of it? May not an earthquake ſwallow up the ſtadthouſe? May not the ſea break in, and demoliſh it? May not another invader, like the late King of France, in 1672, be more ſucceſsful, and carry off the bank?

Theſe are abuſes and calamities to which the bank of Amſterdam is expoſed; and from many of which the bank of England is in a great meaſure protected.

Beſides the banks I have mentioned, not ſo much with a view to give an hiſtorical account of their operations, as to illuſtrate the principles on which they are eſtabliſhed, there are many others in Europe

rope of great and extenſive credit; ſuch as that of Hamburg, Venice, Genoa, (until the ſtate ſpent the treaſure depoſited,) Nuremberg, &c. Every one of theſe participate more of the nature of that of Amſterdam, than of thoſe in Great Britain. They are more calculated for preſerving the ſtandard of their bank money, againſt the adulterations of coin, and for providing a fund of caſh, transferable in bank credit, than for the aſſiſtance of government, or the melting down of ſolid property, which are the great advantages peculiar to *banks of circulation*.

Theſe laſt are alſo infinitely more lucrative to the bankers, than thoſe of depoſit, from the intereſt they draw, from credits given, diſcount of bills, and loans to government.

The profits on the bank of Amſterdam are very trifling. They are confined to the ſmall emoluments of 2 ſtivers for every transfer; beſides the intereſt they draw from the brokers on the place *de Dam*, for the coin and credit they furniſh them with; and, in the laſt place, the $\frac{1}{4}$, $\frac{1}{2}$, or $\frac{1}{8}$ *per cent.* every ſix months, for the coin depoſited, in order to be afterwards drawn out. But on the other hand, they are freed from the enormous expence of providing coin for the payment of foreign balances, and from the great detail of buſineſs which the circulation of paper implies.

END OF THE SECOND PART.

INQUIRY

INTO THE

PRINCIPLES OF POLITICAL ŒCONOMY.

BOOK IV.

OF CREDIT AND DEBTS.

PART III.

OF EXCHANGE.

CHAP. I.

Of the first Principles of Exchange.

CHAP. I.

HAVING ended what I had to say of banks, in which most of the principles of private credit and domestic circulation, have been sufficiently deduced, I now proceed to the doctrine of exchange, which is the principal operation of mercantile credit, for the carrying on of foreign circulation.

The security which merchants commonly take from one another when they circulate their business, is a bill of exchange, or a note of hand: these are looked upon as payment. When they give credit to one another in account, or otherwise, the cause of confidence is of a mixed nature; established partly upon the security of their effects, partly on the capacity,

pacity, integrity, and good fortune, of the perſon to whom the credit is given.

No man but a merchant has any idea of the extent and nature of this kind of credit. It is a thing to be felt, but cannot be reduced to principles; and merchants themſelves can lay down no certain rules concerning it. It is an operation which totally depends upon their own ſagacity.

But when they deal by bills of exchange, the caſe is very different. The punctuality of acquitting theſe obligations is eſſential to commerce; and no ſooner is a merchant's accepted bill proteſted, than he is conſidered to be a bankrupt. For this reaſon, the laws of moſt nations have given very extraordinary privileges to bills of exchange. The ſecurity of trade is eſſential to every ſociety; and were the claims of merchants to linger under the formalities of courts of law, when liquidated by bills of exchange, faith, confidence, and punctuality, would quickly diſappear; and the great engine of commerce would be totally deſtroyed.

A regular bill of exchange is a mercantile contract, in which four perſons are concerned, viz. Firſt, The drawer, who receives the value: Secondly, His debtor in a diſtant place, upon whom the bill is drawn, and who muſt accept and pay it: Thirdly, The perſon who gives value for the bill, to whoſe order it is to be paid: and, Fourthly, The perſon to whom it is ordered to be paid, creditor to the third.

By this operation, reciprocal debts, due in two diſtant parts, are paid by a ſort of transfer, or permutation of debtors and creditors.

(A) in

(A) in London, is creditor to (B) in Paris, value 100*l.* (C) again in London, is debtor to (D) in Paris for a like ſum. By the operation of the bill of exchange, the London creditor is paid by the London debtor, and the Paris creditor is paid by the Paris debtor; conſequently, the two debts are paid, and no money is ſent from London to Paris, nor from Paris to London.

In this example, (A) is the drawer, (B) is the acceptor, (C) is the purchaſer of the bill, and (D) receives the money. Two perſons here receive the money, (A) and (D), and two pay the money, (B) and (C); which is juſt what muſt be done when two debtors and two creditors clear accounts.

This is the plain principle of a bill of exchange. From which it appears, that reciprocal and equal debts only can be acquitted by them.

When it therefore happens, that the reciprocal debts of London and Paris (to uſe the ſame example) are not equal, there ariſes a balance on one ſide. Suppoſe London to owe Paris a balance, value 100*l.* How can this be paid? I anſwer, that it may either be done with or without the intervention of a bill.

With a bill, if an exchanger, finding a demand for a bill upon Paris, for the value of 100*l.* when Paris owes no more to London, ſhall ſend 100*l.* to his correſpondent at Paris in coin, at the expence, I ſuppoſe, of 1*l.* and then, having become creditor on Paris, he can give a bill for the value of 100*l.* upon his being repaid his expence, and paid for his riſk and trouble.

Or it may be paid without a bill, if the London debtor ſhall ſend the coin himſelf to his Paris creditor, without employing an exchanger.

This laſt example ſhews of what little uſe bills are in the payment of balances. As far as the debts are equal, nothing can be more uſeful than bills of exchange, but the more they are uſeful in this eaſy way of buſineſs, the leſs profit there is to any perſon to make a trade of exchange, when he is not himſelf concerned, either as debtor or creditor.

When merchants have occaſion to draw and remit bills for the liquidation of their own debts, active and paſſive, in diſtant parts, they meet upon Change; where, to purſue the former example, the creditors upon Paris, when they want *money* for bills, look out for thoſe who are debtors to it. The debtors to Paris again, when they want bills for money, ſeek for thoſe who are creditors upon it. This is a repreſentation of what we have frequently called the money market, in which the *demand* is for *money*, or for *bills*.

This market is conſtantly attended by brokers, who relieve the merchant of the trouble of ſearching for thoſe he wants. To the broker every one communicates his wants, as far as he finds it prudent; and by going about among all the merchants, the broker diſcovers the ſide upon which the greater demand lies, for money, or for bills.

We have often obſerved, that he who is the demander in any bargain, has conſtantly the diſadvantage in dealing with him of whom he demands. This is no where ſo much the caſe as in exchange, and

and renders ſecrecy very eſſential to individuals among the merchants. If the London merchants want to pay their debts to Paris, when there is a balance againſt London, it is their intereſt to conceal their debts, and eſpecially the neceſſity they may be under to pay them; from the fear leſt thoſe who are creditors upon Paris ſhould demand too high a price for the exchange over and above par.

On the other hand, thoſe who are creditors upon Paris, when Paris owes a balance to London, are as careful in concealing what is owing to them by Paris, from the fear leſt thoſe who are debtors to Paris ſhould avail themſelves of the competition among the Paris creditors, in order to obtain bills for their money, below the value of them, when at par. A creditor upon Paris, who is greatly preſſed for money at London, will willingly abate ſomething of his debt, in order to get one who will give him money for it.

It is not my intention to dip into the intricacies of exchange: all intricacies muſt here be baniſhed; and inſtead of technical terms, which are very well adapted for expreſſing them, recourſe muſt be had to plain language, for pointing out the ſimple operations of this trade. It is by this method that principles muſt be deduced, and from principles we ſhall draw the conſequences which may be derived from them.

From the operation carried on among merchants upon Change, which we have been deſcribing, we may diſcover the conſequence of their ſeparate and jarring intereſts. They are conſtantly intereſted in

BOOK IV.

in the ſtate of the balance. Thoſe who are creditors on Paris, fear a balance due to London; thoſe who are debtors to Paris, dread a balance due to Paris. The intereſt of the firſt is to diſſemble what they fear; that of the laſt, to exaggerate what they wiſh. The brokers are thoſe who determine the courſe of the day: and the moſt intelligent merchants are thoſe who diſpatch their buſineſs before the fact be known.

Now I aſk, how trade, in general, can be intereſted in the queſtion, who ſhall outwit, and who ſhall be outwitted, in this complicated operation of exchange among merchants?

The intereſt of trade and of the nation is principally concerned in the proper method of paying and receiving the balances. It is alſo concerned in preſerving a juſt equality of profit and loſs among all the merchants, relatively to the real ſtate of the balance. Unequal competition among men engaged in the ſame purſuit, conſtantly draws along with it bad conſequences to the general undertaking, as has been often obſerved; and ſecrecy in trade will be found, upon examination, to be much more uſeful to merchants in their private capacity, than to the trade they are carrying on.

Merchants, we have ſaid, in ſpeaking of the bank of England, endeavour to ſimplify their buſineſs as much as poſſible; and commit to brokers many operations which require no peculiar talents to execute. This of exchange is of ſuch a nature that it is hardly poſſible for a merchant to carry on the buſineſs of his bills, without their aſſiſtance, upon many occaſions. When merchants come upon

upon Change, they are ſo full of fears and jealouſies, that they will not open themſelves to one another, leſt they ſhould diſcover what they want to conceal. The broker is a confidential man, in ſome degree, between parties, and brings them together. CHAP. I.

Beſides the merchants, who circulate among themſelves their reciprocal debts and credits, ariſing from their importation and exportation of goods, there is another ſet of merchants who deal in exchange; which is the importation and exportation of money and bills.

Were there never any balance on the trade of nations, exchangers and brokers would find little employment: reciprocal and equal debts would eaſily be tranſacted openly between the parties themſelves. No man feigns or diſſembles, except when he thinks he has an intereſt in ſo doing.

But when balances come to be paid, exchange becomes intricate; and merchants are ſo much employed in particular branches of buſineſs, that they are obliged to leave the liquidation of their debts to a particular ſet of men, who make it turn out to the beſt advantage for themſelves.

Whenever a balance comes to be paid, that payment coſts, as we have ſeen, an additional expence to thoſe of the place who owe it, over and above the value of the debt.

If, therefore, this expence be a loſs to the trading man, he muſt either be repaid this loſs by thoſe whom he ſerves, that is, by the nation; or the trade he carries on will become leſs profitable to him.

BOOK IV.

Every one will agree, I believe, that the expence of high exchange upon paying a balance, is a loſs to a people, no way to be compenſated by the advantages they reap from enriching the few individuals among them, who gain by contriving methods to pay it off: and if an argument be neceſſary to prove this propoſition, it may be drawn from this principle, to wit, whatever renders the profit upon trade precarious or uncertain, is a loſs to trade in general: this loſs is a conſequence of high exchange; and although a profit do reſult from it upon one branch of trade, namely, the exchange buſineſs, yet this profit cannot compenſate the loſs upon every other.

We may, therefore, here repeat what we have ſaid above, that the more difficulty, there be found in paying a balance, the greater will be the loſs to the nation.

This being admitted, I ſhall here enumerate all the difficulties which occur in the paying of balances. Moſt of them have been already mentioned from their relation to ſubjects already diſcuſſed; and could it be ſuppoſed, that every reader had retained the whole chain of reaſoning already gone through, a repetition in this place would be ſuperfluous: but as this cannot be expected, I ſhall, in as ſhort and diſtinct a manner as poſſible, recapitulate, under four articles, what I hope will be ſufficient to refreſh the memory upon each of them.

The firſt difficulty which occurs in paying a balance, is to determine exactly the true and intrinſic value

value of the metals or coin in which it is to be paid; that is to ſay, the real par. CHAP. I.

The ſecond, How to remove the domeſtic inconveniences which occur in paying with the metals or coin.

The third, How to prevent the price of exchange from operating upon the whole maſs of reciprocal payments, inſtead of affecting the balance only.

The remedies and palliatives for theſe three inconveniences once diſcovered, comes the laſt queſtion, viz. How, when other expedients prove ineffectual for the payment of a balance, the ſame may be paid by the means of credit, without the intervention of coin; and who are thoſe who ſhould conduct this operation.

CHAP. II.

How to determine exactly the true and intrinſic value of the Metals, Coin, or Money, in which a Balance to foreign Nations is to be paid.

THIS firſt queſtion regards the whole maſs of reciprocal payments, as well as that of the balance. CHAP. II.

Every payment to be made of a determinate and fixed value, that is to ſay, of a liquidated debt, muſt be paid in a value equally determinate in its nature.

This I ſuppoſe to be the caſe, whether payment be made in the precious metals unmanufactured, that is bullion, or in a nation's coin, or in denominations

minations of money of account. All payments in merchandize, except bullion, muſt ſuffer converſions of value before the debts can be liquidated.

Money of accompt, which is what we underſtand by denominations, we have defined to be a ſcale of equal parts, calculated to determine the value of things, relatively to one another. It muſt, therefore, be by the money of accompt of different nations, that the value of bullion and of coin can be aſcertained.

When coin is introduced, the denominations of money are realized in a determinate quantity of the precious metals, and the fabrication of the bullion into coin, raiſes the value of this commodity, bullion, like the manufacturing of every other natural production.

When coin, therefore, is employed in paying ſums according to the legal denomination which it carries, it is money, not merchandize; but when it is given at any other rate than its denomination, it is merchandize, not money.

In the third book, we have ſhewn how utterly impoſſible it is to realize with exactneſs, the denominations of money of accompt, in the metals which are conſtantly varying in their value, and expoſed to waſte in circulation.

We have ſhewn, by many examples, how, in fact, the value of the pound ſterling has been ſubject to great viciſſitudes of late, from the great diſorder of the coin.

The coin of France, is, indeed, upon a better footing in point of uniformity of weight, than ours; and the proportion of the metals in it comes nearer

their

their preſent value in the market: but then as oft as the balance turns againſt France, the high impoſition upon her coinage, expoſes the coin to great fluctuations of value, when compared with bullion in the Paris market. This is alſo to be aſcribed to the imperfection of the metals when uſed as money, while they are merchandize at the ſame time. CHAP. II.

This being the caſe, the way to calculate the real par of exchange between nations, who have in common no determinate and invariable money, excluſive of coin, is to conſider fine gold and ſilver as the next beſt ſtandard.

This is a merchandize which never varies in its quality. Fine gold is always the ſame in every maſs; and weight for weight, there is no difference in its value or quality any where.

This ſtandard being once adopted, the calculation of the real par becomes an eaſy operation to thoſe who know the courſe of the bullion market in the two places exchanging.

If, by the exportation of all the heavy coin of London, bills muſt be paid in a worn out currency, the riſe in the price of gold in their market, above mint price, will mark pretty nearly how far it is light.

If, on the other hand, the wars of France, or an unfavourable balance upon her trade, ſhall oblige her to export her coin, this operation will *ſink* the value of it, or *raiſe* the price of bullion, which ever way you chooſe to expreſs it.

It is not here a proper place to reſume the queſtion, which of the two expreſſions is the moſt proper: we are here conſidering the value of the bul-

lion to be the thing fixed, becauſe it anſwers the purpoſe. But whether we ſay that bullion *riſes* in the markets of Paris and London; or that the value of their currencies *ſink*, though from very different cauſes, the calculation of the real par will proceed with equal accuracy. An example will illuſtrate this.

When *fine* gold is at the loweſt price to which it can ever fall at Paris, that is to ſay, at the mint price, it is worth 740 livres 9 ſols, or 740.45 livres *per* mark, in decimals, for the eaſe of calculation. The mark contains eight ounces Paris weight.

Were the ounces of Paris equal to thoſe of troy weight, $\frac{1}{8}$ of this ſum, or 92.5562 livres, would be the value of that ounce by which gold is ſold at London.

But the Paris ounce is about $1\frac{1}{2}$ *per cent.* lighter than the troy ounce; and the exact proportion between them is unknown, from the confuſion of weights, and the want of a fixed ſtandard in England.

By the beſt calculation I have been able to make, a Paris ounce ſhould contain 473 grains troy, which makes the proportion between the two ounces to be as 473 is to 480, which laſt is the number of grains in the troy ounce.

Gold bullion at Paris is regulated by the mark *fine*, at London by the ounce *ſtandard*.

When ſtandard gold bullion is at the loweſt price it can be at London, it is worth the mint price, or 3*l.* 17*s.* $10\frac{1}{2}$*d.* *per* troy ounce, which, expreſſed in decimals, is 3.8937*l.* ſterling. Standard is to fine,

as

ts. 11 is to 12; consequently, the ounce fine is 4.2476*l.* sterling: and if the Paris ounce of *fine* bullion be worth at the mint, as has been said, 92.5562 livres; the ounce troy, according to the above proportion, will be worth 93.926 livres. Divide then the livres by the sterling money, and the quotient will give you the real par of exchange of the pound sterling, while bullion remains at the mint price in Paris and in London, viz. $\frac{93920}{42476}$=22.112 livres for the pound, or 32.56*d.* sterling for the French crown of 3 livres.

Gold bullion never can rise in the Paris market, at least all the last war it never *did* rise, above the value of the coin; that is, to 801.6 livres the mark fine, or 100.2 livres *per* ounce Paris, and 101.7 livres the troy ounce.

How high the price of gold bullion may rise at London no man can say; but the highest it rose to, during the last war, was, I believe, 4*l.* 0*s.* 8*d.* *per* ounce standard, or to 4.3999*l.* sterling *per* ounce fine. By this divide the value of the ounce troy fine in French livres, the real par at this rate of the metals in both cities will be $\frac{1017}{43999}$=23.11 livres for the pound sterling, or 31.155 pence sterling for the French crown of 3 livres. But suppose two cases which may happen, viz. 1. That gold bullion at Paris should be at the price of coin, while at London it may be at mint price: or, 2. That at Paris it may be at mint price, when at London it is at 4*l.* 0*s.* 8*d.* what will then the real par of exchange be?

I answer, that on the first supposition, it will be one pound sterling, equal to 23.939 livres, and the

the crown of 3 livres equal to 30.076 pence ſterling. In the other, equal to 21.34 livres for the pound ſterling, and for the crown of 3 livres 33.728. A difference of no leſs than 8.9 *per cent.*

Is it not evident that theſe variations *muſt* occur in the exchange between London and Paris? And is it not alſo plain, that they proceed from the fluctuation of the price of bullion, not from exchange?

We have, I think, demonſtrated, in the third book, that a wrong balance upon the French trade may raiſe bullion in the Paris market to the price of coin; and that a right balance may bring it down to mint price. The price of coinage is above 8 *per cent.* So that 8 *per cent.* of fluctuation in the price of bullion is eaſily accounted for in the Paris market, without taking into the account the variations in the Engliſh market.

In London, where no coinage is paid, were all the coin of full weight, and exportation free, coin and ſtandard bullion would conſtantly ſtand at the ſame price: but when the heavy coin is exported, and the currency becomes light by the old coin remaining in circulation, the price of bullion riſes in proportion.

Is it ſurprizing that, at London, gold in bullion ſhould be worth as much as gold of the ſame ſtandard in guineas, weight for weight? Is it not worth as much at the mint? Why ſhould it not be worth as much at the market? I affirm that any man may offer to pay *for the ounce* of all the guineas coined by Charles II. James II. and William III.

liam III. now in circulation, the higheſt market price that ever was given for ſtandard gold bullion in London, and gain by the bargain. CHAP. II.

This, I hope, will be ſufficient to ſatisfy any body that there is a miſtake in aſcribing the high price paid for the French crown in the London exchange to a wrong balance upon the trade of England with France.

From this new light in which I have placed the queſtion, I hope the arguments uſed in the 16th chapter of the firſt part of the third book, will acquire an additional force; and that thereby the eyes of this nation may be opened with regard to the intereſts of the French trade; a point, I ſhould think, of the higheſt concern.

To calculate, as every body does, the par of the French crown, either by the gold or the ſilver in the Engliſh *ſtandard* coin, when no ſuch *ſtandard* coin exiſts; and to ſtate all that is given for the crown above 29¼*d.* if you reckon by the ſilver, or 30¼*d.* if you reckon by the gold, for the price of a wrong balance, is an error which may lead to the moſt fatal conſequences.

If government ſhould think fit to impoſe, in their own mint, a coinage, equal to that of France, and make all their coin of equal weight, and at the due proportion, it will take off all the loſs we ſuffer by paying coinage to France (which we at preſent impute to the exchange) while ſhe pays none to us. But then it will occaſion nearly the ſame fluctuations upon the real par of exchange as at preſent; only from another cauſe on the ſide of Great Britain. At preſent our exchange becomes favourable

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able from the weight of our own currency, and the balance againſt France upon her trade; which, in Paris, raiſes the price of the bullion with which we pay our French debts. On the other hand, our exchange becomes unfavourable from the lightneſs of our own currency, from the coinage we pay to France, and balance againſt us; which laſt carries off all our new guineas; and in the Paris market, ſinks the value of that bullion in which we pay our French debts.

Were matters put upon a right footing, we ſhould gain from France the price of our coinage, when our balance is favourable, and pay coinage to France when their balance is favourable; inſtead of ſeeing our exchange turn more in our favour, from the additional weight only of the coin in which we pay.

If French coinage ſhould appear too high a price for the intereſt of other branches of Britiſh trade, a queſtion I ſhall not here determine, let us impoſe at leaſt as much as to keep our guineas out of the melting pot, and baniſh all the old coin which throws us into ſuch confuſion.

What has been ſaid is undoubtedly too much upon this ſubject for the generality of readers. The number of thoſe who can go through a chapter like this with pleaſure is very ſmall. But if the idea I have been endeavouring to communicate, be found juſt by one man of capacity, whoſe opinion ſhall have weight in the deliberations of Great Britain, the conſequences may be of great advantage to this nation; and this conſideration will, I hope, plead my excuſe.

I ſhall

I ſhall now ſet this queſtion in another point of view, from which the ſtreſs of my arguments will be felt, and all intricate reaſonings will be laid aſide.

Does not the price of exchange, or what is given above the par, proceed from the expence of ſending the metals from the one place to the other, the inſurance of them, and the exchanger's profit? If this be true, which I believe nobody will deny, muſt not what is paid for the bill, over and above theſe three articles, be conſidered as the real par, relatively to exchange? Now does the price of the bullion which the exchanger pays in his own market, or the price he gets for that bullion in the market to which he ſends it, at all enter into the account of the tranſportation, riſk, and profit, which the exchanger has on the operation? Certainly not. May there not be a very great difference between the buying and ſelling the very ſame bullion in different markets at one time and another? Ought we not to charge this to ſome other accompt than to the price of exchange, which is confined to the expence of tranſporting *the balance only*, and when two objects totally different are included under the ſame term, does it not tend to perplex our notions concerning them?

The great variation in the price of bullion in France, for example, and the expence of procuring it, proceeds from three cauſes. The firſt is, the coinage impoſed in France, while none is impoſed in England. What, therefore, is paid upon this account, is profit to France, and loſs to England.

The ſecond cauſe of variation, is the debaſement of the value of the pound ſterling, when the heavy

gold has been ſent abroad. This loſs affects the nation, and every man in England, in the quality of creditor for ſums ſpecified in pounds ſterling, to the profit of all debtors.

The third cauſe of variation, is from the great expence exchangers are put to, in procuring the metals from other countries, when they cannot be got at home: the conſequence of this ſhall be explained in a ſucceeding chapter.

As all theſe cauſes are combined in the exchange upon bills when they come to market, I think it is proper to analize them, before the doctrine we are upon can be diſtinctly underſtood.

I ſhall therefore conclude my chapter with this propoſition.

That the beſt method of determining exactly the true and intrinſic value of the metals, coin, or money, in which the balance due to or from a foreign nation is to be paid, is to compare the reſpective value of fine bullion with the reſpective denominations of the coin in the one and the other; and to ſtate the difference as the price paid for the exchange*.

* There occurs another conſiderable difficulty to be removed, before the real par of exchange can be exactly determined from the price of bullion, to wit, the uncertainty of weights, and the multiplicity of them.

Every nation in Europe has a different weight, I might ſay almoſt every city. This has proceeded, in a great meaſure, from the inaccuracy with which they were made in former times. I think it is highly probable, that many, at leaſt, of the principal weights in Europe, have derived their origin from the ſame ſtandard; although they are now conſiderably different. Thoſe I am beſt acquainted with are the following; of which I ſhall here

here ſet down a ſhort table, reduced to troy grains, according to the beſt calculation I have been able to make.

One ounce troy contains	480	troy grains.
One ounce Paris, or *poids de marc*,	473	
One ounce Holland troes	473.27	
One ounce Colonia	449.33	

Theſe are the weights uſed in the mints of England, France, Holland, and Germany.

If therefore we ſhould call the troy ounce 100, the proportion of the reſt will be as follows:

Troy	100
Paris	98.541
Holland	98.597
Colonia	93.61

I have choſen to reduce to ounces; becauſe it is the denomination in which the proportion of weights is beſt preſerved.

Theſe ounces I apprehend to have been originally taken from the old Roman pound, which was the weight adopted by the Emperor Charles the Great, who applied himſelf much to the eſtabliſhing of a general ſtandard of weights in his dominions.

In the examples I have given, we ſee how the Colonia ounce deviates more than any other from the average on the whole.

This ounce is very near equal to the old Saxon ounce, eſtabliſhed in the Engliſh mint at the Norman conqueſt, and there preſerved, until Henry VIII. ſubſtituted in its place the troy weight. This circumſtance makes it probable that the Saxon ounce came originally from Charles the Great, who firſt conquered the Saxon nation, and drew them from a ſtate of abſolute barbarity. The rude manners of the Saxons may have occaſioned this great deviation.

The difference, therefore, in thoſe ounces, I aſcribe to the progreſſive error of thoſe who have made weights, and from the neglect of preſerving a proper ſtandard.

The beſt remedy for this inconvenience, would be, for any one mint to form a weight, *ad libitum*, and to ſend a moſt accurate copy of it to every mint in Europe: to mention, at the ſame time, the exact proportion between the weight ſent, and that obſerved at their own mint: to beg of the other mints an equal communication of the proportion between the weight ſent, and

their ſeveral ſtandards: and laſt of all, to publiſh in the newſpapers of all commercial towns, every market day, as is done at Amſterdam, the price of *fine* gold and ſilver, according to this new weight made for the purpoſe. This weight may be called the mint-weight of Europe; and from the univerſal utility which would follow upon ſuch a regulation, it probably might be adopted: were this to happen, it might be a ſtep towards eſtabliſhing an univerſal conformity of weights every where.

While matters ſtand on the preſent footing, it is neceſſary to be informed of three particulars. Firſt, Of the proportion of the different mint weights. Secondly, Of the regulations by which the coin is made. And laſtly, Of the exactneſs of the mints in following the regulation. Every miſtake in any one of theſe three articles, is an impediment to the juſt determination of of the real par.

I acknowledge that, in fact, exchange buſineſs goes on ſmoothly, notwithſtanding all the difficulties we have been enumerating. It may therefore be aſked, in what would conſiſt the great advantage of ſo ſcrupulous a nicety?

My anſwer is, that exchange buſineſs will always go ſmoothly on, as long as exchangers gain, and that trade is not interrupted.

But trading men conſider their own intereſt only; and I am conſidering the intereſt of an intelligent ſtate, which wants to promote the good of the whole community, without occaſioning any hurt to the intereſt of individuals.

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CHAP. III.

How to remove the Inconveniences which occur in paying Balances with the Metals or Coin of a Nation.

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THE inconveniences which occur when balances are to be paid in bullion or coin are theſe:

Firſt, the want of ſecure and ready tranſportation, from the obſtructions government throws in the way to prevent it.

Secondly, The difficulty of procuring the metals abroad when they are not to be found at home.

When we ſpeak here of balances to be paid from one country to another, we underſtand, that the general amount of the whole payments to be made to the world, exceeds the ſum of all that is reciprocally due from it. So far as a balance due to one country is compenſated with a balance due by another, they may be mutually diſcharged by bills of exchange, according to the principles already laid down. All compenſations being made by bills drawn for reciprocal debts, we muſt here ſuppoſe a balance due by the country whoſe intereſt we are conſidering. This, like debts between private people, muſt either be paid in intrinſic value, or by ſecurity for it; that is, by contracting a permanent debt bearing intereſt. The firſt is the queſtion here before us; the ſecond will be examined in the ſucceeding chapter.

The firſt difficulty mentioned, to wit, the want of ſecure and ready tranſportation of the metals,

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proceeds in a great meaſure from the obſtruction government throws in the way, to prevent the exportation of them. To remove which difficulty, it is proper to ſhew how far it is the intereſt of government to obſtruct, how far to accelerate the tranſportation of the metals.

We have ſaid that it is the advantage of every ſtate, in point of trade, to have balances paid with the leaſt expence. If then we ſuppoſe that it is either neceſſary or expedient that this balance ſhould be paid in the metals, government, in this caſe, ſhould facilitate by every method the ſending them off in the cheapeſt and ſecureſt way.

But ſince governments do not generally follow this rule, we muſt examine the reaſons which engage them to prefer a contrary conduct.

The principal, the moſt general, and moſt rational objection againſt the exportation of the metals, is, that when it is permitted without reſtriction, it engages the people, when they go to foreign markets for articles of importation, to run to the coin, inſtead of carrying thither the product and manufactures of the country. From which a conſequence is drawn, that as long as coin and bullion are fairly allowed to be exported, the rich inhabitants will employ them for the purchaſe of foreign commodities, to the hurt of domeſtic induſtry.

This is an objection of great weight, relatively to the ſituation of many nations. The Spaniards and Portugueſe feel it ſeverely. Many individuals there are very rich; the numerous claſſes of the people are either lazy or not properly bred to induſtry. In this ſituation the alternative to government

ment is very diſagreeable. Either the rich muſt be deprived of many enjoyments with which their induſtrious neighbours alone can ſupply them, until, by very ſlow degrees, the loweſt claſſes of their countrymen can be engaged to change their way of living, and be inſpired with a ſpirit of induſtry; or they muſt be allowed to gratify the deſires which riches create, at the expence of the nation's treaſure, and the improvement of their country.

From this alternative we diſcover the principle which muſt direct the conduct of a ſtateſman under ſuch circumſtances, viz.

To forbid the importation of every foreign manufacture whatſoever; to ſubmit to the hardſhips neceſſarily implied in the circumſtances of the nation; and to pay freely what balance may be owing upon natural produce imported for the uſes of ſubſiſtence or manufacture.

This is a plan more rational and more eaſily executed, than a general prohibition to export the metals; becauſe by good regulations, you may prevent the importation of manufactures; but it is hardly poſſible to prevent the exportation of the metals neceſſary to pay for what you have bought from ſtrangers, by the permiſſion of government: and on the other hand, ſuppoſe you do effectually prevent the exportation of the metals, the conſequence will be, to put an end to all foreign trade even in natural produce, which on many occaſions may be neceſſary for the ſubſiſtence of the people. What nation will trade with another who can pay only by barter? All credit will likewiſe be cut off; for who will exchange by bills, with a place which can-

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not pay, either in their own currency, or with the metals, the debts which they reciprocally owe?

The maxim therefore, here, is to prevent as much as poſſible the contracting of debts with ſtrangers; but when they muſt be contracted, to facilitate the payment of them.

This reaſoning is calculated to direct a ſtateſman who finds himſelf at the head of a rich luxurious nobility, and an idle or ill-inſtructed common people, ſurrounded by induſtrious neighbours, whoſe aſſiſtance may be neceſſary upon many occaſions, to provide ſubſiſtence, or the materials of manufacture, for his people; and this while he is forming a ſcheme for introducing induſtry at home, as a baſis for eſtabliſhing afterwards a proper foreign commerce.

But in this ſubject combinations are infinite, and the ſmalleſt change of circumſtances throws the deciſion of a queſtion on a different principle.

I will not therefore ſay, that in every caſe which can be ſuppoſed, certain reſtrictions upon the exportation of bullion or coin are contrary to good policy. This propoſition I confine to the flouriſhing trading nations of our own time.

To ſet this matter in a fair light, and as an exerciſe upon principles, I ſhall borrow two examples, one from hiſtory, and another from a recent experiment made in France, in which a clog upon the exportation of the metals and coin was very politically laid on.

We learn from the hiſtory of Henry VII. of England, a ſagacious Prince, that he eſtabliſhed very ſevere laws againſt the exportation of bullion; and

obliged the merchants who imported foreign commodities into his dominions, to inveſt their returns in the natural produce of England, which at that time conſiſted principally in wool and in grain.

The circumſtances of the times in which that Prince lived, muſt therefore be examined, before we can juſtly find fault with this ſtep of his political œconomy.

In Henry the VIIth's time, the foreign trade of England was entirely in the hands of foreigners, and every elegant manufacture almoſt came from abroad.

Under ſuch circumſtances, is it not plain, that the prohibition to export bullion and coin, was a compulſion only concomitant with other regulations, to oblige the foreign merchants, reſiding in his kingdom, to buy up the ſuperfluity of the Engliſh natural produce of wool and grain? Had not the King taken theſe meaſures, the whole money of the nation would have been exported; the ſuperfluous natural produce of England would have lain upon hand; the redundancy of which would have brought the price of them below the value of the ſubſiſtence of thoſe who produced them; agriculture would have been abandoned; and the nation would have been undone.

I allow that nothing is ſo abſurd as to permit the conſumption of foreign productions, and to forbid the exportation of the price of them. I alſo allow that every reſtraint laid upon exporting ſilver and gold, affects the conſumer of foreign goods, and obliges him to pay the dearer for them; but this additional expence to the conſumer, does not augment

ment the maſs of foreign debts. The debt due abroad will conſtantly be paid with the ſame quantity of coin, whether the exportation of it be allowed or not; becauſe the loſs of thoſe who pay the balance ariſes from the riſk of confiſcation of the money they want to export againſt law; or from the high exchange they are obliged to pay to thoſe who take this riſk upon themſelves. In both caſes, the additional expence they are put to remains in the country, and is repaid them by the conſumers; conſequently, can never occaſion one farthing more to be exported. Prohibitions, therefore, upon the exportation of ſpecie, are not in every caſe ſo abſurd as they appear at firſt ſight. It is very certain that nobody ever gives money for nothing; conſequently, a ſtate may reſt aſſured that the proprietors of the ſpecie, their ſubjects, will take ſufficient care not to make a preſent of it to foreigners. The intention, therefore, of ſuch prohibitions is not ſo much to prevent the payment of what people owe, as to prevent that payment from being made in coin or bullion; and alſo to diſcourage the buying of ſuch foreign commodities as muſt be paid in ſpecie, preferably to others which may be paid for with the returns of home produce.

When a ſtateſman, therefore, finds the balance of trade, upon the main, favourable to the country he governs, he need give himſelf no trouble about the exportation of the ſpecie, from this ſingle principle, to wit, that he is ſure that what is exported is not given for nothing; and that the favourable balance cannot fail to bring it back again, together with an additional ſupply. But when the balance turns

turns againſt him in the regular courſe of buſineſs, not from a temporary cauſe, then he may lay reſtraints upon the exportation of ſpecie, as a concomitant reſtriction, together with others, in order to diminiſh the general maſs of importations, and thereby to ſet the balance even.

In a trading nation, I allow that no reſtriction of this kind ought to be made general; becauſe it then affects the uſeful as well as the hurtful branches of importation: but in Henry's days, the ſale of corn and wool was ſufficient to procure for England all it wanted from abroad; and the intereſts of trade were not ſufficiently underſtood, to enable the ſtate to act by any other than the moſt general rules. Forbidding the exportation of coin was found to promote the exportation of Engliſh productions, and this was a ſufficient reaſon for making the prohibition peremptory. In this view of the matter, did not Henry judge well, when he obliged the merchants who imported foreign goods, to inveſt the price they received for them in Engliſh commodities? Once more I muſt ſay it, he was not ſo much afraid of the conſequences of the money going out, as of the corn and wool remaining at home: had he been ſure of the exportation of theſe articles to as good purpoſe another way, the prohibition would have been abſurd; but I am perſuaded this was not the caſe.

The example taken from France is this.

After the fatal bankruptcy in 1720, by the blowing up of the Miſſiſippi, the trade of France languiſhed from the effects of the inſtability of their coin,

coin, until the year 1726, when it was ſet upon that footing on which it has remained ever ſince.

Upon that laſt general coinage, the ſame principles of enriching the King by the operation directed the conduct of the miniſter.

The old ſpecie was cried down, and proſcribed in circulation: but it was thought, that as it was the King's coin, he had a liberty to ſet a price upon it, at a different rate from any other bullion of the ſame fineneſs: and that he had alſo a right to command the proprietors of it to bring it to the mint at his own price.

The conſequence was, that thoſe who could were very deſirous to ſend it to Holland, in order to draw back the full value of it, in bills upon Paris.

Under ſuch circumſtances, were not prohibitions upon the exportation of this coin moſt conſiſtent with the plan laid down? We ſhall, in the next chapter, examine the conſequences of this operation upon the exchange of France.

What has been ſaid, will, I hope, ſuffice to explain ſome of the principal motives which ſtateſmen may have, when they lay reſtrictions on the exportation of the metals, with a view to favour the trade of their nation, or the intereſt of the exchequer.

But beſides the intereſt of trade, there are other reaſons for laying prohibitions on the exportation of the national coin, although that of bullion be left free under certain reſtrictions.

As often as it happens, that the value of a nation's coin remains at par with bullion of the ſame weight and

and fineneſs, this coin, if exported, may be melted down. This is a loſs; becauſe it puts the nation to the expence of coining more for the uſe of circulation.

When nations give coinage gratis, or when they allow the coin of other nations the privilege of paſſing current under denominations exactly proportioned to its intrinſic value, then coin never can be worth more than any other bullion of the ſame ſtandard; conſequently, will be exported or ſmuggled out whenever there is a demand for it abroad.

If, therefore, a nation do really deſire to avoid an expence at the mint, they muſt make it the intereſt of merchants to export every other thing preferably to their own coin. This is done by impoſing a duty upon the coinage; and this will either prevent the coins going out unneceſſarily, or if it be neceſſary to export it, the coin will return in the payments made to the nation; becauſe of its advanced value above any other bullion which can be ſent.

The forbidding of the exportation of coin, implies a reſtriction upon the exportation of bullion; becauſe, unleſs the bullion be examined at the cuſtom houſe, and the ſtamps upon it looked at, it may happen to be nothing but the nation's coin melted down, with an intention to avoid the law. For this reaſon, whoever brings bullion to be ſtamped, whether it be for exportation or not, muſt declare that it has not been made of the nation's coin. How ſlender a check are all ſuch declarations! The only one effectual is private intereſt; and as no man will take his wig to ſtuff his chair,

chair, when he can get cheaper materials equally good, ſo no man will melt down coin which bears an advanced value, when he can procure any other bullion.

On the whole, we may determine, that a flouriſhing commercial ſtate, which has, on the average of its trade, a balance coming in from other countries, ſhould lay it down as a general rule, to facilitate the exportation of its coin, as well as of bullion: and if a very particular circumſtance ſhould occur, which may continue for a ſhort time, it may then put a temporary ſtop to it, and facilitate the payment of the balance by the means of credit.

I have enlarged ſo much upon the methods of removing the firſt difficulty of paying a balance, with the coin or bullion found in a nation, that what remains to be ſaid upon the ſecond difficulty, to wit, the procuring them from other nations, need not be long.

Were the mint weights of all countries ſufficiently determinate; were the regulations concerning the ſtandard of bullion exactly complied with; and were the current market prices of this important commodity, conſidered as a valuable piece of intelligence every where, the bullion trade would be much eaſier than it is.

We have ſaid, that when the reciprocal debts of two nations are equal, there is no occaſion for bullion to diſcharge them. But trading nations are many; and from this it may happen, that one who, upon the whole, is creditor to the world, may be debtor to a place which is alſo creditor to the world; and in this caſe bullion is neceſſary to pay the debt.

If

If a man owe money to a perſon who has many creditors, the perſon owing, may buy up a claim againſt him, and pay what he owes in that way: but if the perſon to whom he owes the money be indebted to nobody, then the debt muſt be paid with ready money. Juſt ſo of nations. For inſtance, when bullion is demanded to be exported to Holland, the Engliſh merchants, who are creditors on Spain and Portugal, take from thence their returns in bullion, for the ſake of paying the balance to Holland, which is, upon the whole, creditor to the world.

But as it ſeldom happens, that he who deals with Holland is the perſon who has credit in Spain or Portugal, he is obliged to apply to Portugal merchants in order to procure bullion. They again who trade thither, having profit on the returns of the commodities they bring from thence, will expect the ſame profits upon the bills they give to the man who wants to take his return in bullion. This plainly raiſes the price of bullion in the Engliſh market; becauſe it is brought home in conſequence of a demand from England. On the other hand, when the demands of England for Portugueſe commodities is leſs than the value of what Portugal owes her, the Portugal merchants in London are obliged to take the balance in the metals. Theſe come to the London market, and are offered to ſale to thoſe who want them: then the price of bullion falls; becauſe the demand comes from the other ſide.

To go through all the operations which merchants employ to abbreviate the proceſs I have been deſcribing, would, indeed, better explain the practical

practical part of exchange, that what I have ſaid; but I write not to inſtruct merchants, but to extract from their complicated operations, the principles upon which they are founded.

CHAP. IV.

How the Price of Exchange, in a proſperous trading Nation, *may be prevented from operating upon the whole Maſs of reciprocal Payments, inſtead of affecting the Balance only.*

WE have taken it for granted, that the price of exchange is a hurt to trade in general.

In this chapter, we ſhall inquire more particularly than we have done, in what this hurt conſiſts. The point of view of every man, whether he be a merchant or not, is firſt honeſtly, and as far as law and fair dealing do permit, to conſult his own private intereſt; and in the ſecond place, to promote that intereſt with which his own is moſt cloſely connected.

According to this rule, every merchant will endeavour to manage his exchange buſineſs to the beſt advantage to himſelf. If the balance be againſt his country, he will ſell his bills on the country creditor as dear as he can; that is, he will endeavour to raiſe the price of exchange as high as he can againſt his country, whatever hurt may thereby reſult to the general trade of it; and in ſo doing, he does only what duty to himſelf requires; because

cauſe it is by minding his buſineſs only, that he can trade upon equal terms with his neighbours, every one of whom will avail themſelves of the like fluctuations, when they happen to be in their favour.

From this I conclude, that ſince the loſs upon high exchange againſt a country, affects principally the cumulative intereſt of the whole, relatively to other trading nations; it is the buſineſs of the ſtateſman, not of the merchants, to provide a remedy againſt it.

The whole claſs of merchants, no doubt, exchangers excepted, would be very glad to find the courſe of exchange conſtantly at par. This is alſo greatly the intereſt of the ſtate; becauſe it is from the *balance* in its favour, not from *the profit made in drawing that balance* from the debtor, that the ſtate is a gainer. This muſt be explained.

I am to ſhew how it happens, that a nation is benefited or hurt by the net balance only, which it receives from, or pays to her neighbours: and that the whole expence of paying or receiving this balance, is not national, but particular to individuals at home; conſequently, it would be the intereſt of all ſtates, that balances both favourable and unfavourable, were paid by the nation-debtor, at the leaſt expence poſſible.

The great difficulty in communicating one's thoughts upon this ſubject with diſtinctneſs, proceeds from the ambiguity of the terms neceſſary to expreſs them. This may be avoided by adopting the technical terms of merchants; but theſe are ſtill

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more difficult to be comprehended by any one who is not converſant in commerce. I ſhall acquit myſelf of this difficult taſk the beſt way I can.

When we ſpeak of a balance between two nations, we ſhall call the nation who owes the balance the *nation-debtor*; the other to whom it is owing, the *nation-creditor*.

Balances imply reciprocal debts; conſequently, reciprocal debtors and creditors. To avoid, therefore, confuſion in this particular, we ſhall uſe four expreſſions, viz. the debtors to the nation-creditor; the debtors to the nation-debtor; the creditors of the nation-creditor; the creditors of the nation-debtor.

Let me ſuppoſe that Paris owes a balance to London, no matter for what ſum. The reciprocal debts between Paris and London are all affected by the conſequence of this balance: that is to ſay, ſome pay or receive more than the real par; ſome pay or receive leſs. To diſcover where the profit centers, we are now to inquire who are thoſe who receive more, who are thoſe who receive leſs. And as profit and loſs are here only relative, that is to ſay, the profit of the one is compenſated by the loſs of the other; we muſt ſee whether upon the whole, the price of the exchange in this caſe be favourable to England, to which, by the ſuppoſition, the balance is due, and unfavourable to France, which is the debtor.

The queſtion thus ſtated, let us examine the operations of exchange at London and Paris, and the ſtate of demand in both, for money or bills.

In

In the London market the demand will be for money in London for bills on Paris; and he who demands, muſt pay the exchange; conſequently, the London merchants, creditors of the *nation-debtor*, will pay the exchange; that is to ſay they will ſell their bills on Paris below par; and the London merchants, debtors to the nation-debtor, will buy them, and gain the exchange; that is, they will buy bills upon Paris below par.

Now as this negotiation is carried on at London, I muſt ſuppoſe it to take place amongſt Engliſhmen; one part of whom will gain exactly what the other loſes; conſequently England, in this reſpect, neither gains or loſes by the exchange paid in London.

Let us next examine the intereſt of the merchants, and the intereſt of the nation's trade.

The creditors of the nation-debtor, who have loſt by the exchange, are thoſe who have exported Engliſh commodities to France. Upon this profitable branch of commerce the exchange occaſions a loſs, the conſequence of which is, to diſcourage exportation.

The debtors to the nation-debtor, who have gained by the exchange, are thoſe who have imported French commodities to England. Upon this hurtful branch of commerce, the exchange occaſions a profit; the conſequence of which is, to encourage importation.

This is not all. The Engliſh merchants exporters, who have loſt, cannot draw back their loſs upon the return of their trade; becauſe the return of their trade is the *money* due by France, the balance

included. Whereas the Engliſh merchants importers may draw back their loſs upon the return of their trade; becauſe that return is *merchandize*, which they can ſell ſo much the dearer to their own countrymen.

If the balance be in favour of London, importers gain, as we have ſeen; when it is otherwiſe, and when they are obliged to pay the exchange, they indemnify themſelves, by the ſale of their goods ſo much the dearer. High exchange, therefore, *may* hurt exporters, but never *can* hurt importers.

Let us next examine the operation of exchange at Paris.

In the Paris market, the demand will be for bills upon London for money in Paris; and he who demands muſt pay the exchange. The debtors, therefore, to the nation-creditor, muſt pay the exchange, and the creditors of the nation-creditor will receive it; and as both are Frenchmen, the profit and loſs to Paris exactly balance one another.

But the debtors of the nation-creditor are here the importers of Engliſh goods; conſequently, this trade, hurtful to France, would be hurtful to the importer, could he not indemnify himſelf by ſelling them ſo much the dearer to his countrymen.

The creditors, again, of the nation-creditor, who gain the exchange, are the exporters of French goods to England; ſo that here the exportation meets with an encouragement from a balance againſt the country.

From

From the advantage found upon exchange in favour of exporters, and the loſs upon it to the prejudice of importers, in the caſe of a wrong balance, it has been believed, that a wrong balance produced, upon importations and exportations, effects equal and contrary, which deſtroy one another, and thereby bring the balance even.

In anſwer to this, I have two ſhort arguments to offer.

The firſt is, that were the argument concluſive, it would hold good in reverſing the propoſition; to wit, that the conſequence of a favourable balance would be to deſtroy the difference alſo, and bring the balance even. This I never heard alleged.

My ſecond argument is the ſtronger: that the enhancing of the prices of importations will not ſo effectually diſcourage the ſale of them at home, as the enhancing the prices of exportations will diſcourage the ſale of them abroad; for the reaſons I ſhall give preſently. But in the mean time,

If the compenſation be conſidered in relation only to the merchants importers and exporters, there, indeed, I agree, that *their* profit and loſs upon the exchange is moſt exactly balanced; becauſe what the one party gains the other loſes; and the country loſes the balance only, as has been ſaid.

The reciprocal debts thus tranſacted by bills of exchange, we ſee that no profit can be made, nor loſs incurred, either to London, or Paris, by this operation,

The profit to Frenchmen is compenſated by the loſs to Frenchmen; the ſame may be ſaid of the Engliſh merchants: but the balance due after theſe operations are over, and the more remote conſequences of high exchange, affect the relative intereſt of the two nations.

This balance is generally ſent by the country-debtor, either to the country-creditor, or to their order in a third country, to which the country-creditor is indebted.

The tranſportation and inſurance of this balance is an expence to thoſe who owe it, and the profit, if any there be on this operation, naturally belongs to the exchangers of the ſame nation, who conduct it. So whether exchange be paid upon bills drawn, or expence be incurred in the ſending away the balances, no profit can accrue upon this to the nation-creditor, to the detriment of the debtor: it muſt, therefore, do hurt to both, relatively to nations where, upon the average of trade, exchange is lower.

I come now to the method of tranſporting balances in the metals.

We have ſeen how the creditors of the nation-debtor pay exchange upon the ſale of their bills on Paris, which owes the balance. If by the operations of exchangers, this exchange ſhould riſe, to their detriment, higher than the expence, trouble, and inſurance, upon bringing this balance from Paris, then they will appoint ſome factor at Paris, to whoſe order they will draw bills upon their debtors in that city; and as what the Paris-debtors owe

to

to London is ſtated in pounds ſterling, the London-creditors will value the pound ſterling, according to the rate of exchange, in their favour; and in their bills upon their Paris-debtor, they will convert the ſum into livres, including the exchange.

By this operation, we ſee how the tranſportation of the balance may become the buſineſs of the creditors of the nation-debtor: which is a circumſtance we have not as yet attended to: a few words will explain it.

When the creditors of the nation-debtor ſell their bills, they muſt pay the exchange, as has been ſaid. When they draw bills to the order of a friend in the place where the balance is owing, they ſuperadd the exchange. This their debtors pay: but then they themſelves muſt be at the trouble and expence of bringing home the money.

It is from this alternative which both parties have of either ſending what they owe to their creditors in bullion, or of allowing them to draw for it at the additional expence of paying the exchange, that a check is put to the extravagant profit of exchangers: and from this circumſtance ariſe all the delicate operations of drawing and remitting.

Into theſe we ſhall not inquire: the principle on which they depend appears ſufficiently plain, and this is the principal object of our attention.

I proceed now to conſider how far thoſe reciprocal profits and loſſes, between merchants in the ſame country, affect the trade of it in general.

When the balance is favourable, we have ſaid that the exporters loſe the exchange, and the importers gain it; and both being citizens, the coun-

try would not be concerned in their relative intereſts, were it not that theſe intereſts are connected with that of the country, which reaps great benefit from the trade of thoſe who deal in exportations, and loſs from the other.

If, therefore, exchange be found to hurt exportation, when the balance is favourable, in this reſpect the country has an intereſt in bringing it as low as poſſible. But as it may be ſaid, that ſince the return of an unfavourable balance hurts in its turn the intereſts of importation, and favours that of exportation, exchange thereby operates a national compenſation: I muſt, in this place, add one reflection more, in order to deſtroy the ſtrength of this argument.

Were this propoſition admitted, as *I am ſure it* cannot, from what we have already ſaid, it would afford no argument againſt doing what can be done, to render exchange as little hurtful as poſſible to exportation, during the favourable balance. But next as to the queſtion itſelf of national compenſation, I cannot allow that even *exporters* and *importers* are thereby brought on a level in point of trade: for this reaſon, that ſince it is allowed, that when the balance of trade is favourable, the price of exchange is a loſs to the merchants exporters; this exchange in proportion as it augments, muſt diſcourage manufacturers, who muſt have regular, and even growing profits, according to the increaſe of demand. Theſe the merchant exporter cannot afford; becauſe he *cannot* draw back from his foreign correſpondents, any advance upon manufactures at home, ariſing from domeſtic circumſtances.

ſtance. But when upon an unfavourable balance, the merchant importer is affected by the exchange againſt him; this additional expence he *can* draw back; becauſe he ſells to thoſe who are affected by all domeſtic circumſtances. CHAP. IV.

Let us therefore determine, that it is the intereſt of a ſtate to diſregard this compenſation which is ſaid to be given to exportation during a wrong balance, which does ſo much harm; and to avoid the diſcouragement given to it by a right balance, which does ſo much good. The only way to compaſs theſe ends, is to keep exchange as near to par as poſſible.

Could reciprocal debts be always exchanged at par, and could the expence of bringing home, and ſending a balance abroad, be defrayed by the ſtate, I think it would prove a great advantage to the trade of a nation. I do not pretend to ſay that, as matters ſtand, the thing is practicable; but as this is a queſtion which relates to my ſubject, and ſeems both curious and intereſting, I ſhall here examine it.

At firſt ſight, this idea will appear chimerical; and ſome readers may deſpiſe it too much, to be at the trouble to read what may be ſaid for it. I ſhall therefore ſet out by informing them that the ſcheme has been tried, in a great kingdom in Europe, under a great miniſter: I ſay it was attempted in France, in the year 1726, under the adminiſtration of Cardinal Fleuri, and produced its effect; although it was ſoon given up, from a circumſtance which, I think, never can occur in Great Britain.

After

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After the laſt general coinage in France, 1726, exchange became ſo unfavourable to that kingdom, as to occaſion a general outcry. The Cardinal, to put a ſtop to the clamour, and to ſet exchange to rights, as he thought, ordered Samuel Bernard, at that time a man of great credit, to give bills on Holland at par, to all the merchants; and in order to enable him to place funds in Amſterdam, for the payment of his bills, the Cardinal ſupplied this exchanger with ſufficient quantities of the old coin, then cried down, and paid for the exportation of it to Holland.

Upon this, exchange on Holland came to par; and the exchangers at Paris looked on the operation with amazement. The miniſter, however, in a ſhort time diſcovered, that by this he was undoing with one hand, what he wanted to eſtabliſh with the other*. He therefore ſtopped in his career, after having paid, perhaps, ten times the balance due to Holland.

By unfolding the combination of this operation, I ſhall be better able to caſt light on the queſtion before us, than in any other way.

When the general coinage was made in France, by the arret of the month of January 1726, all the old coin was cried down, and ordered to be recoined. The mint price of fine gold *per* marc was fixed at 536 livres 14 ſols 6 deniers; that of the ſilver at 37 livres 1 ſol 9 deniers. Theſe were the

* By this operation he ſent away the very coin which he wanted to force into the mint; as has been ſaid.

prices

prices at which the mint paid for bullion, when offered to be coined. But the King, as if he had a right upon the metal in the old coin, commanded it to be delivered at the mint at no higher rate than 492 livres for the marc of fine gold, and at 34 livres for the marc of fine ſilver: and to compel the poſſeſſors of it to bring it in, all exportation and melting down was made highly penal; the avenues from France were beſet with guards to prevent the going out; and the melting pots were ſtrictly watched. Upon this, the poſſeſſors of the old coin, rather than ſell it to the mint at ſo great an undervalue, had recourſe to exchangers for bills upon Holland for it: and theſe being obliged to ſend it thither at a great expence and riſk, exacted a very high exchange, which, conſequently, affected the whole trade of France.

Politicians perſuaded the Cardinal, that exchange had got up ſo high, not from the diſcredit caſt on the old coin, but becauſe of the wrong balance of trade, and of the alteration which had been made at that time upon the denomination of the new coin: and that as ſoon as the balance againſt France was paid, exchange would return to par. Upon this the Cardinal ſet Bernard to work, but he ſoon diſcovered his miſtake; and by arret of the 15th of June the ſame year, raiſed the mint price of the old coin, and then exchange became favourable.

Theſe are all facts mentioned by Dutot, and yet he never will aſcribe the riſe of exchange in France to any other cauſe than to the tampering with the denominations of their coin: an operation which may rob one ſet of people in favour of another; but which

which has very little effect upon exchange, when other circumſtances do not concur, as in the caſe before us.

Now had the high exchange againſt France been owing to a wrong balance upon her trade, is it not evident that the Cardinal's operation would have ſucceeded, that all demands for bills at Samuel Bernard's office would have been confined to the exact extent of this balance; that the reciprocal debts would have been negociated between the merchants at par; and, conſequently, that all expence upon exchange would have been ſaved to individuals, at the ſmall charge to government of tranſporting the balance paid by the merchants at Paris, for Samuel Bernard's bills?

Were proſperous trading ſtates, therefore conducted by ſtateſmen, intelligent, capable, and uninfluenced by motives of private intereſt, they would make it a rule to be at the expence of ſending off, and bringing home all balances, without any charge for exchange to the traders; but the conſequence of either neglect, or incapacity in the perſon at the helm, would then make it too dangerous to attempt, at once, ſo great a change in the preſent method of paying balances: but I never make allowances for ſuch defects in miniſters, while I am deducing the principles which ought to direct the conduct of a ſtateſman.

I ſhall next ſlightly point out the bad conſequences which, *upon an unfavourable ſtate of commerce*, might reſult from ſuch a plan: and without recommending any thing to practice, leave the reader to judge of the expediency.

We ſee, that by a ſtateſman's giving bills at par, *on all occaſions*, and being himſelf at the expence of tranſportation and inſurance, in bringing home and ſending off all balances, exchange would of itſelf come to par.

The firſt conſequence of this would be, the total annihilation of the exchange buſineſs; and if, after this, any interruption ſhould happen by neglect in the ſtateſman, trade might ſuffer conſiderably.

Another conſequence is, that the moſt deſtructive trade would go forward without a check, as long as merchants could pay the par of the bills they demanded upon foreign parts: and this they would conſtantly be enabled to do, while there was either coin or paper in circulation, as has been explained in treating of banks of circulation upon mortgage.

The conſequence of this again would be, to oblige the ſtate to pledge the revenue of the country to ſtrangers, in proportion to the balance owing, over and above the extent of the metals to diſcharge it.

Now the queſtion is, and this I ſhall leave to the ſagacity of my reader to determine, whether, as matters ſtand, there be any check proceeding from high exchange which can prevent the bad conſequences here ſet forth. I ſuſpect there is none. We ſee the moſt enormous ſums lent by nations to nations; raiſing the exchange againſt the lenders; turning it in favour of the borrowers, but never preventing the loan from going forward. Does not Great Britain, as well as France, owe amazing ſums to other nations, at the expence of paying the intereſt out of their revenue? And have not all theſe

ſums

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ſums been tranſacted by exchangers, who have made great fortunes by the operation? Are not the moſt unfavourable balances paid in the ordinary method? Are there not, already, inſtruments in the hands of all nations, ſufficient for their undoing? How then can their ruin be accelerated by this alteration in the mode only of performing the ſame thing?

But let it be obſerved, that our buſineſs, in this chapter, is to ſearch for methods to advance the proſperity of *flouriſhing* nations, who have a balance owing to them; and here we have been ſetting forth the bad conſequences which reſult from them, to others who are *in decay*. Every argument, therefore, drawn againſt this ſcheme, in favour of the idle or prodigal, is an argument in favour of it, with reſpect to the induſtrious and frugal. As all nations are liable to alternate viciſſitudes of proſperity and adverſity, the principles here laid down require to be carefully combined with domeſtic circumſtances, before they be applied to practice.

It was with a view to this diſtinction, that, in the title of this chapter, I pointed out the queſtion there propoſed, as being relative to the ſtate of it in a *proſperous trading nation;* and I am not quite clear how far it might not be advantageous in every caſe: but this queſtion I ſhall not here enlarge upon. What has been ſaid, will, I hope, be ſufficient to point out the principles upon which the deciſion depends; and if any ſtateſman incline to try the conſequences of it now and then, by an experiment, nothing is ſo eaſy as to do it, without any detriment. This is proved from the operation performed by the French cardinal, on the occaſion of a very unfavourable and high exchange.

CHAP.

CHAP. V.

How, when other Expedients prove ineffectual for the diſcharging of Balances, the ſame may be paid by the Means of Credit, without the Intervention of Coin or Bullion; and who are thoſe who ought to conduct that Operation.

CHAP. V.

WE have now applied the principles formerly laid down, towards diſcovering the moſt proper expedients for removing or palliating the three inconveniences to be ſtruggled with in regulating exchange. Firſt, How to eſtimate the value of a balance due: Secondly, How to pay it with the coin or bullion of the country: and laſtly, How to prevent the price of exchange from affecting any thing more than the balance to be paid, after all reciprocal debts have been compenſated.

It remains to inquire, what are the moſt proper methods to acquit what a nation may owe, after it has done all it can to pay the value of their balance in the other way.

At firſt ſight, it muſt appear evident that the only method here is to give ſecurity, and pay intereſt for what cannot be paid in any other value. This in the end is conſtantly what is done by every nation; but as the ordinary methods of bringing it about, are very perplexed, and are attended with expences which raiſe exchange to a great height, and thereby prove a prodigious diſcouragement to trade in general:

neral: it would be no ſmall advantage, could all this loſs on exchange be thrown equally upon every claſs within the ſtate, inſtead of being thrown entirely upon its commerce.

As this is the expedient to be propoſed, it will not be amiſs to obſerve, that foreign balances ariſe chiefly upon four articles. Firſt, The great importation and conſumption of foreign productions. Secondly, The payment of debts and intereſt due to foreigners. Thirdly, The lending money to other nations. And, Fourthly, The great expence of the ſtate, or of individuals, abroad.

Could all the bad conſequences ariſing from theſe four cauſes, and the high exchange occaſioned by them, be caſt upon that intereſt alone which occaſions them, I ſhould not propoſe to lay the whole body of the nation under contribution for repairing the loſs.

But if from the nature of the thing, as matters ſtand, the whole be found to fall upon trade, without a poſſibility of preventing it; in this caſe, I think it would be better for the nation, *in cumulo*, to lend its aſſiſtance, and to ſhare the burden, than to allow it to fall upon that part of the body politic from which the whole draws its vigour and proſperity.

It cannot be denied, that when a heavy balance is due by a nation, it has the effect of raiſing exchange upon every draught or remittance. When bills are demanded to pay a foreign claim, it cannot be determined from which of the four articles, juſt now mentioned, the claim has ariſen. Whether for national purpoſes or not, the exchange is the ſame, and equally affects the whole intereſt of trade.

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If this be a fair ſtate of the caſe, I think we may determine that ſuch balances ought to be paid by the aſſiſtance and intervention of a ſtateſman's adminiſtration.

The object is not ſo great as at firſt ſight it may appear. We do not propoſe that the value of this balance ſhould be advanced by the ſtate: by no means. They who owe the balance muſt then, as at preſent, find a value for the bills they demand. Neither would I propoſe ſuch a plan for any nation who had, upon the average of their trade, a balance againſt them; but if, on the whole, the balance be favourable, I would not, for the ſake of ſaving a little trouble and expence, ſuffer the alternate vibrations of exchange to diſturb the uniformity of profits, which uniformity tends ſo much to encourage every branch of commerce.

We have abundantly explained the fatal effects of a wrong balance to banks which circulate paper; and we have ſhewn how neceſſary it is that they ſhould perform what we here recommend, to be done by the ſtate itſelf. There is therefore nothing new in this propoſal: it is merely carrying the conſequences of the ſame principle one ſtep farther, and making it a branch of policy, for government to be aſſiſting to trade in the payment of balances, where credit abroad is required; and we have propoſed that this aſſiſtance ſhould be given out of the public money.

The greateſt, and indeed, I think, the only objection to this ſcheme, is, that by it the condition of our foreign creditors will be bettered, for no va-

BOOK IV.

lue received from them. This I allow will be the caſe when the balance is againſt England: but it will be compenſated to the creditors by the loſs they will ſuſtain when the balance is in her favour. But ſuppoſing there ſhould be a benefit to foreign creditors, will not this circumſtance raiſe the confidence of all the world in the Engliſh funds? If, upon a propoſal to government to lower the rate of money by refunding the debts which bear a higher intereſt than what money can be procured for, the continent ſhould pour her wealth into our ſubſcription, might we not then more readily expect a ſupply from that quarter? Beſides, is not all the intereſt due to foreign creditors paid in bank paper? Is not this demandable in coin, and will *not this* coin be exported, if credit be not found? Were the bank of England to keep a ſubſcription open, at all times, in Amſterdam, for money to be borrowed there, on the payment of the intereſt in that city, who doubts but loans might be procured at much leſs expence than at preſent, when we are beating about for credit every where, until by the return of a favourable balance upon the trade of England, ſhe ſhall be enabled to fill up the void.

I feel my own inſufficiency to unfold the many intricacies which ſuch an operation muſt imply. I therefore ſhall not attempt what, at any rate, I muſt leave imperfect. What has been ſaid, together with what has been thrown out on the ſame ſubject, in treating of other matters, is ſufficient to give a hint, concerning the expediency of the plan

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in general. And as to the objection which arises from the payments to the public creditors abroad, I shall reserve the more ample discussion of it till I come to consider the doctrine of public credit. CHAP. V.

END OF THE THIRD VOLUME.

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